

# TAXBOOK+

## Income Tax Practice

1090

Questions

Build  
confidence

1075

MCQs

Practice  
perfect

20

Case  
Scenarios

Grasp multiple  
concepts

Past  
20

CA Exam  
Questions

Practice what  
was asked

Fully solved as per latest law

**BONUS** Direct Support from Sharad Sir Till Exams

**CA. SHARAD BHARGAVA**

CA Ranker, Alumni of EY & KPMG,  
Former EY India Tax Learning Leader, Teacher & Trainer,  
Author of several Tax Books, Mentor & Coach

100%  
Coverage of  
ICAI  
Syllabus

**Tax With Sharad's TaxBook\* (Income Tax) - Practice**

ISBN : 978-81-958424-2-1

Price: Visit [www.TaxWithSharad.com](http://www.TaxWithSharad.com)

Author: Sharad Bhargava

Published by Sharad Bhargava for Bright Spark Ventures

© Sharad Bhargava for Bright Spark Ventures. Printing & publishing rights with Sharad Bhargava for Bright Spark Ventures.

Contact us at [www.TaxWithSharad.com](http://www.TaxWithSharad.com)

*Disclaimer, replacement, refund* -This book is subject to the Terms & Conditions and Refund & Cancellation policy published on [www.TaxWithSharad.com](http://www.TaxWithSharad.com)

**CAUTION**

Any person should not sell or modify the content or reproduce, copy, display, publicly perform, distribute, share, republish, frame, download, transmit, modify, adapt, create any derivative, rent, lease, sell, assign, license, sub-license or otherwise use the content or any part of content in any way for any purpose (including public or commercial purpose) other than expressly permitted under these Terms and Conditions, without the prior written permission of the publisher. Breach will result in severe civil and criminal penalties. Violators will be prosecuted to the maximum extent possible.

**If you come across any such infringement, please notify us immediately on [www.TaxWithSharad.com](http://www.TaxWithSharad.com)**

## **CA. Sharad Bhargava – A brief**

*B.Com (H) from Shri Ram College of Commerce (SRCC), Delhi University > CA Internship from KPMG > All India CA Ranker clearing both groups together in first attempt > Chartered Accountant > Former EY India Tax Learning Leader > Teacher & Trainer > Author, Editor & Content Advisor > Tax Learning Mentor & Coach*

- A powerful combination of tax subject matter expertise, strong research and teaching experience and professional services industry experience in Big 4.
- Numerous training sessions for tax professionals and students.
- Author of several publications on tax for students and professionals. Content advisor and editor to several tax publications and products.
- Certified Executive Life Coach, having mentored and counselled several students and professionals.

Share your valuable feedback & suggestions or  
send your observations on TaxBook<sup>+</sup>

Just write to me on [sharad@taxwithsharad.com](mailto:sharad@taxwithsharad.com)

Rate & Review TaxBook<sup>+</sup>

Log on to [www.TaxWithSharad.com](http://www.TaxWithSharad.com) and go to  
"Rate & Review" section

## Law stated in this book

Questions in this book are solved as per the law amended up to **31 October 2022**

This edition of the book is relevant for CA Intermediate Tax - May / November 2023 examinations

*May 2023 exam* – Law as amended up to 31 October 2022 is relevant. This book is fully updated till this date.

*November 2023 exam* – Law as amended up to 30 April 2023 is relevant. Updates from 1 November 2022 to 30 April 2023, if any, will be released after 30 April 2023 and hosted on user dashboard at [www.TaxWithSharad.com](http://www.TaxWithSharad.com). You will also be notified by email.

TaxBook<sup>+</sup> is sharply exam oriented and covers 100% syllabus prescribed by the ICAI.

Income Tax law is complex and its language is technical. To help you easily understand the subject, the content and language of law has been kept simple.

The Government relaxes timelines and compliances from time to time to provide relief to taxpayers. These relaxations are temporary and, hence, not incorporated in the book, unless specifically stated. Law stated and questions solved are as per the main legal provisions.

## Tools to Use

### Examiner Comments

- Examiner Comments. highlight mistakes made by students in the past so that you are alert and do not repeat them. These are highlighted in *grey italics*.

### Master Questions

- Most Chapters have 'Master Question' covering all important angles of a Chapter. Solve and you practice the whole Chapter at one go! These are highlighted in *grey*.

### TaxBook<sup>+</sup> Tutorials

- Tutorial videos on select topics are periodically hosted on YouTube channel. Scan QR code given below.

## TaxBook<sup>+</sup> Tutorials

To access TaxBook<sup>+</sup> tutorial playlist, scan the QR code given alongside. To be notified of new videos, **save** this playlist and **subscribe** to the YouTube channel.



# Master plan to Crack-the-Tax

## With TaxBook<sup>+</sup>

Dear Student, I am sharing with you a Master Plan to crack your CA Intermediate Tax exam. I have devised the plan based on my experience as a CA Ranker and Tax Learning Expert, my regular interactions with students and my analysis of the roadblocks to success in tax exams. I have divided the plan in 3 stages, as given below, and also listed things that you don't need to do separately. I am confident that following the plan in letter and spirit will be immensely useful to you in your studies.

### Stage 1 - While you are studying

#	Tool	What to do?	Where?
1	Tax Traps	<b>Carefully note</b> the Tax Traps highlighted as <b>grey text</b> . These are caution areas to help you avoid commonly made mistakes.	Concepts Book
2	Facts & Figures	<b>Carefully note</b> the key words, figures, limits, formulae, etc. These are highlighted in <b>bold</b> and/or <b>grey</b> for quick attention.	Concepts Book
3	Illustrations	Read them once. Then, <b>solve</b> them yourself! This will make you practice typical scenarios on all important provisions.	Concepts Book
4	BYC Questions	<b>Solve ALL</b> BYC questions to get a solid grasp on provisions. Question numbers are given along with each topic for ready reference. Especially solve <b>ALL</b> past exam questions – <b>Last 20 ICAI exam</b> questions from New & Old schemes are covered in the Book.	Practice Book
5	MCQs	<b>Solve ALL</b> MCQs to gain super confidence. Most MCQs are situation based (not vanilla one-liners). This is how they are asked in exams.	Practice Book
6	Master Questions	Most Chapters have 'Master Question' covering all important angles of a Chapter. <b>Solve</b> and you practice the whole Chapter at one go! These are highlighted in <b>grey</b> .	Practice Book
7	Examiner comments	<b>Carefully note</b> the Examiner Comments. These highlight mistakes made by students in the past so that you are alert and do not repeat them. These are highlighted in <b>grey italics</b> .	Practice Book
8	Finance Act amendments	<b>Carefully note</b> the amendments made by Finance Act 2022. These are recent amendments on which questions are likely to be asked and are highlighted in the Book in <b>bold italics</b> . Also watch video tutorials on select amendments (see #9 below).	Concepts Book; YouTube
9	Tutorials	<b>Watch</b> TaxBook <sup>+</sup> Tutorials to get 100% clarity on select concepts.	YouTube

## Stage 2 - Once you have studied all the Chapters

#	Tool	What to do?	Where?
1	Tax Cruiser	<b>Read it once every week.</b> It is a powerful inter-linking compiler. Regular reading will help you grasp inter-linking of multiple concepts for solving practical questions. It is given in the Concepts Book. You can also download the PDF from <a href="http://www.TaxWithSharad.com">www.TaxWithSharad.com</a> and it is completely FREE.	Concepts Book
2	Case Scenarios	<b>Solve ALL</b> Case Scenarios. You will get a very good hold on inter-linking of multiple concepts.	Practice Book

## Stage 3 – The fortnight before exams

#	Tool	What to do?	Where?
1	Facts & figures	<b>Revise</b> all the key words, figures, limits, formulae, etc. These are highlighted in <b>bold</b> and/or <b>grey</b> for speed revision.	Concepts Book
2	Charts & Tables	<b>Revise</b> all the Charts & Tables given in the Book covering various concepts.	Concepts Book
3	Tax Traps	<b>Revise</b> all Tax Traps. This will ensure you don't make common mistakes. These are highlighted as <b>grey text</b> .	Concepts Book
4	Tax Cruiser	<b>Revise</b> Tax Cruiser <b>every few days</b> . You will have inter-linking of concepts on your tips while solving practical questions.	Concepts Book
5	Master Questions	<b>Go through ALL</b> Master Questions. You will practice the whole Chapter at one go! These are highlighted in <b>grey</b> .	Practice Book
6	RTP/MTP	<b>Solve</b> RTP & MTPs released by ICAI closer to the exams.	RTP/MTP

**Get direct support from Sharad Sir till your 2023 exams!**

You are eligible to get direct support from Sharad Sir till your 2023 exams

## You Don't Need to Do These Separately!

#	What?	Why you don't need?
1	Questions in ICAI SM	All angles of law covered in the questions given in ICAI Study Material have been integrated in existing TaxBook <sup>+</sup> questions.* So, if you practice TaxBook <sup>+</sup> , you practice everything!
2	Past exam questions	<b>Last 20</b> ICAI exam questions from the New & Old schemes are covered in the Book, fully solved as per the latest law. You won't find so many questions elsewhere. So, you don't need scanners, crackers or compilers!
3	Past RTP/MTP	All angles of law covered in the past RTP & MTP questions of ICAI have been integrated in existing TaxBook <sup>+</sup> questions so that you do not miss out on anything to practice.* Hence, you need not worry about solving them separately.

\*Questions are not reproduced but all the angles of law are duly incorporated.

Happy Tax Learning!

**CA. Sharad Bhargava**

## 1

## Basic Concepts

## Build Your Confidence (BYC) &amp; MCQ

## OVERVIEW OF INCOME TAX LAW

**M1.** A person has derived income of Rs. 10 lakh from retail business, Rs. 20 lakh from agriculture and Rs. 1 lakh from interest on deposits. His gross receipts are Rs. 15 lakh from retail business and Rs. 35 lakh from agriculture. Parliament can levy income tax on:

- (a) 31 lakh (b) 15 lakh  
(c) 11 lakh (d) 10 lakh

**M2.** Income Tax Act extends to:

- (a) The entire world (b) Whole of Asia  
(c) Whole of India (d) Whole of India, except Union Territories

**M3.** Mr. X earned income of Rs. 1 lakh from certain activities carried aboard a ship situated in territorial waters of India, off the coast of Mumbai. He claimed such income to be outside the scope of Income Tax Act. Is he correct?

- (a) Yes (b) No

**M4.** Section 80GG of the Act allows deduction in respect of rent paid by the assessee in respect of accommodation occupied by him for his residence. The proviso to this section provides that the deduction will not be available where the accommodation is owned by the assessee or a family member in certain cases. What is the purpose of the proviso?

- (a) Explain or clarify the provision (b) Provide exception or exclusion  
(c) Define meaning of a term (d) Prescribe a procedure

**M5.** Section 2(24)(ix) of the Act provides that winnings from lotteries will be included within the scope of 'income'. Explanation to section 2(24)(ix) states that 'lottery' includes winnings from prizes awarded to any person by draw of lots or by chance or in any other manner. What is the purpose of the Explanation?

- (a) Explain or clarify the provision (b) Provide exception or exclusion  
(c) Define meaning of a term (d) Prescribe a procedure

**M6. CA2018(MAY)** - Briefly explain the purpose for which the words 'Proviso' and 'Explanation' are incorporated under various sections of the Income tax Act, 1961. – Refer para 2.1 of Concepts Book.

**M7.** Which route does the Central Government take every year to make amendments to Income Tax Act?

- (a) Income Tax (Amendment) Act (b) Debate in the Parliament  
(c) Ordinance (d) Finance Act

**M8.** Which of the following is subordinate to the CBDT?

- (a) Ministry of Finance (b) Income tax department  
(c) Department of Revenue (d) State legislature

**M9.** The basic source of Income Tax law is:

- (a) Income-tax Act, 1961 (b) Income-tax Rules, 1962  
(c) Circulars & notifications (d) Court decisions

**M10.** Which of the following are not notified by the CBDT?

- (a) Rules (b) Forms  
(c) Notifications (d) Circulars

**M11.** Section 80C allows deduction in respect of sum paid as contribution to any provident fund set up by the Central Government and notified by it in this behalf in the Official Gazette. For this purpose, the Central Government will need to issue:

- (a) Rule (b) Form  
(c) Notification (d) Circular

**M12.** Section 10(14) provides exemption in respect of any such special allowance or benefit, not being in the nature of a perquisite, specifically granted to meet expenses wholly, necessarily and exclusively incurred in the performance of the duties of an office or employment of profit, as may be prescribed, to the extent to which such expenses are actually incurred for that purpose. Where would one need to look at for what has been prescribed in this respect?

- (a) Rules (b) Forms  
(c) Ordinance (d) Circulars

**M13.** CBDT has issued a circular which is not beneficial to the assessee. The circular would be binding on:

- (a) Assessee (b) Assessing Officer  
(c) High Court (d) Supreme Court

**M14.** CBDT wants to clarify certain doubts regarding requirement to deduct tax at source on the GST component of a payment. What can it do?

- (a) Amend the Act (b) Issue a notification  
(c) Issue a circular (d) Can't do anything

**M15.** The Assessing Officer followed a view stated by the CBDT and added Rs. 1 lakh to the income of the assessee. Assessee claimed that the view was contrary to the provisions of the Act and appealed against the order in the Court. The Court upheld the view of the assessee and deleted the addition. Whose word will be final?

- (a) Assessee (b) Assessing Officer  
(c) CBDT (d) Court

**M16.** The word 'local authority' is not defined in the Act. Where should one first look?

- (a) Dictionary (b) Ask the CBDT to issue a circular  
(c) General Clauses Act (d) Search the internet

#### CHARGE OF TAX

**M17.** Income-tax shall be charged for an \_\_\_\_\_ in accordance with, and subject to the provisions of this Act in respect of the \_\_\_\_\_ of the \_\_\_\_\_ of every \_\_\_\_\_, at the rates prescribed for the year by the Annual Finance Act [Section 4]

#### ASSESSMENT YEAR & PREVIOUS YEAR

**M18.** Mr. X, employed with Z Ltd., resigned on 31.12.2022. He earned salary for the period of service. He has no other source of income. Assessment Year for the income earned during this period will commence on:

- (a) 1.1.2023 (b) 1.4.2023  
(c) 1.4.2022 (d) At the discretion of Mr. X

**M19.** Mr. Y has filed his return of income for the assessment year 2023-24. Income for which year has been disclosed in the return of income?

- (a) Financial year 2022-23 (b) Financial year 2023-24  
(c) Calendar year 2022 (d) Calendar year 2023

**M20.** Total Income of Mr. P earned during the PY 2022-23 will be charged to tax in the AY \_\_\_\_\_

**M21.** Mr. Z decided to start his manufacturing business. He acquired plant and machinery on 5.3.2022 which were installed on 10.3.2022. The business was set up on 15.4.2022 and was finally commenced on 15.5.2022. What would be the first previous year for this business?

- (a) 15.4.2022 to 31.3.2023 (b) 15.5.2022 to 31.3.2023  
(c) 10.3.2022 to 31.3.2023 (d) 1.4.2022 to 31.3.2023

**M22.** Mr. Busy is running grocery business since 2007. What would be the PY for AY 2023-24?

- (a) 2023-24 (b) Calendar year 2023  
(c) 2022-23 (d) Accounting year from July 2022 to June 2023

**M23.** Mr. Work starts a part-time business on 1.10.2022. He is also employed in a company throughout the year 2022-23. In which AY will his incomes be taxed?

- (a) AY 2022-23 for business income and AY 2023-24 for salary income (b) AY 2022-23 for business and salary income  
(c) AY 2023-24 for business and salary income (d) Will not be taxed as PY for both incomes are different

**M24.** U/s 172, tax can be demanded where a ship belonging to or chartered by a \_\_\_\_\_ leaves the Indian port.

**M25.** U/s 174, income of an individual can be taxed in the PY itself if it appears to the AO that he may \_\_\_\_ India shortly and has no present intention of returning.

**M26.** Mr. US, a citizen of US, is residing in India since the last 10 years. During the assessment proceedings for the PY 2022-23, the AO comes to know on 1 January 2024 that Mr. US would permanently leave India on 15 May 2024. Which of the following assessments can the AO make?

- |   |   |
|---|---|
| (a) Regular assessment for PY 2022-23 in AY 2023-24   | (b) Regular assessment for PY 2022-23 and accelerated assessment for the period 1 April 2023 to 31 March 2024 in AY 2023-24                                   |
| (c) Regular assessment for PY 2022-23 and accelerated assessments for the periods 1 April 2023 to 31 March 2024 and 1 April 2024 to 15 May 2024 in AY 2024-25 | (d) Regular assessment for PY 2022-23 and accelerated assessments for the periods 1 April 2023 to 31 March 2024 and 1 April 2024 to 15 May 2024 in AY 2023-24 |

**M27.** On the basis of information received, the AO wants to make assessment in the relevant year itself in the following cases. Which of the following actions is valid?

- |   |   |
|---|---|
| (a) Mr. Run may leave for Finland after 3 months for a 6 month assignment after which he will return.                           | (b) Three firms have joined together to conduct a mega entertainment event to be held after 2 months, post which the association will dissolve. |
| (c) Mr. Sincere, estimating a huge tax demand, is going to sell one of his many properties, in the ordinary course of business. | (d) Mr. Busy has discontinued his Business A but continues with Business B  |

**M28.** U/s 174A, income of which entity can be taxed in the current year itself and for the period up to which date?

- |  |   |
|--|---|
| (a) Company; up to the 31 March of the FY      | (b) Company; up to the date of dissolution                      |
| (c) AOP/BOI/AJP; up to the date of dissolution | (d) AOP/BOI; up to the date of the event for which it is formed |

**M29.** U/s 175, income of which person can be taxed in the current year itself and for the period up to which date?

- |  |   |
|--|---|
| (a) Company; up to the date of payment of tax                      | (b) AOP/BOI/AJP; up to the date of filing of return |
| (c) Any person; up to the date of commencement of proceeding by AO | (d) Any person; up to 31 March of the FY            |

**M30.** When can accelerated assessment be made u/s 176?

- |   |  |
|---|--|
| (a) Where any person commences a business during the AY | (b) Where any business or profession is discontinued during the AY |
| (c) Where any profession is suspended during the AY     | (d) Where any business is temporarily halted during the AY         |

**M31.** AO has discretion to either charge income in the PY itself or in the usual AY in case of:

- |  |   |
|--|---|
| (a) Person leaving India with no intention to return | (b) BOI formed for an event and likely to be dissolved shortly thereafter |
| (c) Person likely to transfer property to avoid tax  | (d) Business or profession which is discontinued                          |

**M32.** Rs. 5 lakh was found to have been credited in the books of Mr. Q. He could not provide any explanation about the nature and source of the credit. Can this amount be charged to tax as income of Mr. Q?

- |         |        |
|---------|--------|
| (a) Yes | (b) No |
|---------|--------|

**M33.** Mr. V invested Rs. 50 lakh in shares of UB Pvt. Ltd. This amount was not recorded in the books of account. He could provide satisfactory explanation to the Assessing Officer in respect of Rs. 20 lakh. How much amount can be taxed as income of Mr. V?

- |             |             |
|-------------|-------------|
| (a) 50 lakh | (b) 30 lakh |
| (c) 20 lakh | (d) Nil     |

**M34.** During a search, Mr. C, carrying on a business, was found to be the owner of jewellery whose market value was Rs. 75 lakh. He had not recorded the jewellery in the books of account. During the assessment, he offered detailed explanation about its nature and source of acquisition with which the Assessing Officer was satisfied. How much amount can be taxed as income of Mr. C?

- |             |                             |
|-------------|-----------------------------|
| (a) 75 lakh | (b) 150 lakh                |
| (c) Nil     | (d) At the discretion of AO |

**M35.** Under section 69B, the \_\_\_\_\_ of amount spent in any financial year on investment or any bullion, jewellery or other valuable article, over the amount recorded in the books, can be taxed as income of such financial year, if it is not explained satisfactorily.



**M36.** During the FY 2022-23, Mr. K incurred Rs. 1 crore as expenditure on marriage ceremony of his son. Upon inquiry regarding the source of such expenditure, Mr. K could provide satisfactory explanation in respect of Rs. 60 lakh. How much amount can be taxed as income of Mr. K?

- (a) 1 crore (b) 60 lakh  
(c) 40 lakh (d) Nil

**M37.** Under section 69D, any amount borrowed or repaid during a previous year, in respect of a hundi, otherwise than through an \_\_\_\_\_, can be taxed as income for such previous year.

### PERSON & ASSESSEE

**M38.** Which of the following statements is false?

- (a) Assessment of minor is made on representative assessee (b) Jain undivided family is treated as HUF  
(c) Firm and LLP are taxed differently (d) Company is taxed separately from its shareholders

**M39.** BOI consists only of \_\_\_\_\_ whereas AOP can consist of individuals and other persons.

**M40.** Every person is an assessee.

- (a) True (b) False

**M41.** Match the following:

Person under the Income Tax Act		Entity	
1	Individual	A	Delhi University
2	HUF	B	Partner of a firm
3	Company	C	Brihanmumbai Municipal Corporation
4	Firm	D	Co-heirs jointly carrying on business of deceased father without constituting a partnership firm
5	AOP	E	Jain undivided family
6	Local authority	F	Ernst & Young LLP
7	Artificial juridical person	G	Body corporate incorporated in France

**M42.** Which of the following assessments is valid?

- (a) Assessment of JK Pvt. Ltd. can be made on Mr. C, its majority shareholder (b) Assessment of Ramesh HUF can be made on Ramesh, Suresh and Kanti who are its members, by apportioning its income amongst the members  
(c) Assessment of BM LLP can be made on A, B, C, D and E, who are its members, by apportioning its income amongst the members (d) Assessment of Rajat, 10 years, can be made on Mr. Bhagat, his guardian

**M43.** A village panchayat claims that it was not formed with the objective of earning income, profits or gains but for serving the people of the village. Hence, it is not a 'person' and, thus, not liable to tax. Is the contention valid?

- (a) Yes (b) No

**M44.** Which of the following persons is not an assessee?

- (a) Mr. Z, in whose income, the income of P, his minor daughter, has been clubbed under the provisions of the Act (b) Mr. K, the agent of Mr. X (a non-resident), who is assessed as a representative assessee of Mr. X and is, thus, deemed to be an assessee under the Act  
(c) Mr. Y, who has not deducted tax at source as required under the Act and is, thus, deemed to be an assessee in default (d) Master V, a student aged 10 years, who does not have any source of income and is not required to comply with any obligation under the Act

**M45.** Which of the following persons is not an assessee?

- (a) Mr. Exempt is not required to pay tax. However, he fails to deduct tax on salary paid to his employee (b) Flop Ltd. has incurred huge losses. It files return of income to claim carry forward of the losses.  
(c) Mr. Senior is not liable to tax but files return of income to claim refund of TDS (d) Income of Mr. Poor is below the tax threshold and he does not file his return of income

**M46. CA2016(MAY), 2013(NOV)** - Define the term 'assessee' as per the Income-tax Act, 1961. – Refer para 6 of Concepts Book.

### INCOME

**M47.** Which of the following factors are irrelevant to determine whether an item is in the nature of income?

- (a) Whether it is mere reimbursement of expenses (b) Whether it is from a mutual activity  
 (c) Whether it has been actually accounted in books (d) Whether it is diversion or application of income

**M48.** Which of the following statements is true?

- (a) Revenue receipts are always included in total income (b) Capital receipts are always excluded from total income  
 (c) Definition of income u/s 2(24) is inclusive (d) All receipts are included in total income

**M49.** Which of the following is income?

- (a) Mr. C incurred taxi expenses for official travel which were reimbursed to him by his employer (b) Mrs. Keshav received Rs. 1,000 p.m. from Mr. Keshav as pin money for meeting household expenses  
 (c) Rotary Club received Rs. 500 p.m. as membership fee from its members which it used to provide various services to the members (d) Mr. Rony received Rs. 10,000 as fee for providing consultancy services, which was accounted as loan in the books of account

**M50.** Which of the following cannot be characterized as income on grounds of mutuality?

- (a) Surplus funds of Rs. 3 lakh of XYZ club which is taking moly fee of Rs. 1,000 from its members and incurring expenses on running the club (b) Monthly maintenance charges taken by Resident Welfare Association of a Housing Society from its resident members for providing common facilities and services to the members  
 (c) Goods transferred by V-Mart Ltd. from its Head Office in Delhi to Branch Office in Kanpur after adding 10% margin (d) All the above

**M51.** Which of the following is not income?

- (a) Prize money of Rs. 6 lakh won by Mr. V by participating in the KBC quiz show on television (b) Income of Rs. 1 lakh earned by Mr. Z from sale of gold jewellery  
 (c) Gain of Rs. 1 lakh on sale of shares in Tata Ltd. by Mr. J, an investor (d) Receipt of 100 bonus shares in KLM Ltd. issued by the company to Mr. X, an equity shareholder

**M52.** For computing the total income of PY 2022-23, Rahul had to classify his incomes into various heads of income, club income of his minor child with his own income, provide permissible deductions from his gross his total income and determine his residential status. Which of the following steps would he apply as the last step?

- (a) Classification into heads of income (b) Determining the residential status  
 (c) Deductions from Gross Total Income (d) Clubbing of income

**M53.** Rohit earned Rs. 20,000 as interest on his savings bank account with State Bank of India. Under which head of income would this income fall?

- (a) Income from house property (b) Capital gains  
 (c) Profits and gains of business or profession (d) Income from other sources

**M54.** Rahul computed income of Rs. 50,000 under each of the five heads of income, after allowing exemption of Rs. 10,000 under the provisions of each head. From the gross total income so arrived of Rs. 2,50,000, he allowed deduction of Rs. 50,000 and arrived at the total income of Rs. 2,00,000. On what amount will he need to compute income-tax?

- (a) On 2,00,000 (b) On 2,50,000  
 (c) On 50,000 for each head of income (d) On 3,00,000

**M55.** Which of the following statements is false?

- (a) Total income is determined with reference to a previous year (b) Scope of total income is based on residential status of the assessee  
 (c) Deductions are allowed only after aggregating incomes under all the heads of income (d) Income is classified under five heads of income

**M56.** Total income of Rs. 10,050 will be rounded off as:

- (a) 10,000 (b) No need to round off  
 (c) 10,100 (d) 10,010

**M57.** Total income of Rs. 10,051.10 will be rounded off as:

- (a) 10,051 (b) 10,000  
 (c) 10,050 (d) 10,060

**M58.** Which of the following statements is true?

- (a) Income is always computed on due basis (b) Assessee can adopt cash or mercantile system of accounting to compute income under PGBP and IFOS
- (c) Capital gains is computed based on method of accounting followed by the assessee (d) Income under the head 'Salaries' is always computed on receipt basis

**M59.** Rohit needs to compute his total income earned during the period 1.4.2022 to 31.3.2023 and tax liability thereon. He should base his computation based on provisions of the Act as they stand on which date?

- (a) 1.4.2022 (b) 1.4.2023  
(c) 31.3.2023 (d) Dates on which incomes were earned

**M60.** Through an amendment in the Rules, it was provided that application for an exemption needs to be made in Form X with effect from 1.9.2022. Before this date, the prescribed Form was Form Y. Through a further amendment, the Form was once again changed to Form Z with effect from 15.3.2023. Which Form will Mr. Z use if he wishes to make application for exemption on 15.9.2022?

- (a) Form X (b) Form Y  
(c) Form Z (d) Any of these Forms can be used

## Answer Key

M1 C; M2 C; M3 B; M4 B; M5 A; M6 -; M7 D; M8 B; M9 A; M10 D; M11 C; M12 A; M13 B; M14 C; M15 D; M16 C; M17 assessment year, total income, previous year, person; M18 B; M19 A; M20 2023-24; M21 A; M22 C; M23 C; M24 NR; M25 leave; M26 D; M27 B; M28 C; M29 C; M30 B; M31 D; M32 A; M33 B; M34 C; M35 excess; M36 C; M37 A/c payee cheque; M38 C; M39 individuals; M40 B; M41 [1B, 2E, 3G, 4F, 5D, 6C, 7A]; M42 D; M43 B; M44 D; M45 D; M46 -; M47 C; M48 C; M49 D; M50 D; M51 D; M52 C; M53 D; M54 A; M55 C; M56 B; M57 C; M58 B; M59 B; M60 A

## Hints to MCQ answers

**M1.** Constitution of India empowers the Parliament to levy taxes on income (other than agricultural income), i.e., 10 lakh + 1 lakh.

**M3.** Income Tax Act extends to whole of India which includes its territorial waters.

**M18.** PY is 2022-23 and AY is 2023-24 which begins on 1.4.2023

**M19.** PY is the FY immediately preceding the AY

**M21.** PY for business newly set up begins from date of setting up and ends with 31 March of the FY.

**M26.** 1 April of the current AY up to the probable date of departure from India *shall* be chargeable to tax in that AY u/s 174.

**M27.** A: Not valid u/s 174 as he will return // B: Valid u/s 174A // C: Not valid u/s 175 as he will sell property in the ordinary course of business, not to avoid payment of tax // D: Not valid u/s 176 as AO has discretion and in this case accelerated assessment may not be necessary to safeguard interest of revenue.

**M31.** AO has discretion only u/s 176 to tax the income in the current AY or regular AY. There is no discretion in other sections.

**M32.** U/s 68

**M33.** U/s 69. Unexplained investment can be taxed.

**M34.** Nil u/s 69A as nature and source satisfactorily explained.

**M36.** U/s 69C as nature and source not satisfactorily explained for Rs. 40 lakh.

**M42.** Assessment of minor can be made on guardian as representative assessee

**M44.** Master V does not fall in any category of section 2(7).

**M45.** Mr. Poor does not fall in any category of section 2(7).

**M49.** A: Pure reimbursement; B: Pin money is not income; C: Not income on ground of mutuality. D: It is income, manner of accounting is not relevant.

**M51.** A, B and C are incomes. D: Mere receipt of bonus shares is not income. Capital gain will arise upon sale of these shares.

**M53.** IFOS, since it does not fall under any other head of income

**M54.** Income tax is computed on total income

**M55.** Deductions are allowable, as specified, while computing income under each head of income as well as from GTI.

**M56.** Already rounded off to multiple of 10

**M57.** Ignore paise = 10,051. Last figure is less than 5. Reduce to next lower multiple of 10.

**M59.** Total income and tax liability is computed based on provisions of the Act as on 1<sup>st</sup> April of the AY, i.e., 1.4.2023 for FY 2023-24.

**M60.** Change in a procedure is applicable from the date the amendment is effective. Form X is effective as on 15.9.2022.



## 2

## Rates of Tax

## Build Your Confidence (BYC)

**B1.** Mrs. Super Senior, resident of India, is 85 years of age. She has total income of 12,00,000 for the PY 2022-23. Compute her tax liability. Assume that she has not opted for section 115BAC.

■

## Computation of tax liability

Computation	Rs.
<b>Total income</b>	
First 5,00,000 @ Nil	0
Next 5,00,000 @ 20%	1,00,000
Next 2,00,000 @ 30%	60,000
<b>Tax on total income</b>	<b>1,60,000</b>
Less: Rebate u/s 87A: Nil since TI is > 5 lakh	-
	1,60,000
Add: Surcharge: Nil since TI is ≤ 50 lakh	-
	1,60,000
Add: HEC @ 4%	6,400
<b>Tax liability</b>	<b>1,66,400</b>

**B2.** Mr. PK is a non-resident and 65 years of age. His total income for PY 2022-23, comprising salary, is Rs. 15 lakh. Compute tax liability for AY 2023-24. Assume that he has not opted for section 115BAC.

■

## Computation of tax liability

Computation	Rs.
First 2,50,000 @ Nil	Nil
Next 2,50,000 @ 5%	12,500
Next 5,00,000 @ 20%	1,00,000
Next 5,00,000 @ 30%	1,50,000
<b>Tax on total income</b>	<b>2,62,500</b>
Less: Rebate u/s 87A: Nil since TI is > 5 lakh	-
	2,62,500
Add: Surcharge: Nil since TI is ≤ 50 lakh	-
	2,62,500
Add: HEC @ 4%	10,500
<b>Tax liability</b>	<b>2,73,000</b>

**B3.** Mr. Senior, a resident, turns 60 years of age on 31 March 2023. His total income for PY 2022-23, comprising business income, is Rs. 20 lakh. Compute tax liability for AY 2023-24. Assume that he has not opted for section 115BAC.

■

*Computation of tax liability*

Computation	Rs.
First 3,00,000 @ Nil	Nil
Next 2,00,000 @ 5%	10,000
Next 5,00,000 @ 20%	1,00,000
Next 10,00,000 @ 30%	3,00,000
<b>Tax on total income</b>	<b>4,10,000</b>
Less: Rebate u/s 87A: Nil since TI is > 5 lakh	-
	4,10,000
Add: Surcharge: Nil since TI is ≤ 50 lakh	-
	4,10,000
Add: HEC @ 4%	16,400
<b>Tax liability</b>	<b>4,26,400</b>

**B4.** Mr. Young, aged 42 years, has total income of 60 lakh for PY 2022-23 from salary, income from house property and interest on fixed deposits. Compute his tax liability for AY 2023-24. Assume that he has not opted for section 115BAC.

■

*Computation of tax liability*

Total income	Rs.
First 2,50,000 @ Nil	Nil
Next 2,50,000 @ 5%	12,500
Next 5,00,000 @ 20%	1,00,000
Next 50,00,000 @ 30%	15,00,000
<b>Tax on total income</b>	<b>16,12,500</b>
Less: Rebate u/s 87A: Nil since TI > 5 lakh	-
	16,12,500
Add: Surcharge @ 10% as TI is > 50 lakh and up to 1 crore	1,61,250
	17,73,750
Add: HEC @ 4%	70,950
<b>Tax liability</b>	<b>18,44,700</b>

**B5. MASTER QUESTION** - Mrs. Taxing, turns 60 years of age on 1 April 2023. She has total income of Rs. 2,01,00,000 for PY 2022-23 comprising income from salary and house property. Compute tax liability for AY 2023-24. Assume that she has not opted for section 115BAC.

■ A person born on 1 April of a particular year is said to have completed a particular age on 31 March on the preceding day of his/her birthday. However, the question does not state that Mrs. Taxing was born on 1 April. Rather, it states that she turns 60 years of age on 1 April 2023. Therefore, she is not a senior citizen for PY 2022-23. Tax liability is computed as under.

Total income	Rs.	Rs.-
First 2,50,000 @ Nil		Nil
Next 2,50,000 @ 5%		12,500
Next 5,00,000 @ 20%		1,00,000

Next 1,91,00,000 @ 30%		57,30,000
<b>Tax on total income</b>		<b>58,42,500</b>
Less: Rebate u/s 87A: Nil since TI > 5 lakh		-
		58,42,500
Add: SC @ 25% as TI > 2 crore and up to 5 crore		14,60,625
<b>Tax after SC</b>		<b>73,03,125</b>
Tax and SC cannot exceed " <b>Tax+SC on 2 Cr + (TI – 2 Cr)</b> " = 66,84,375 + (2,01,00,000 - 2,00,00,000)	67,84,375	
Marginal Relief	73,03,125 - 67,84,375	(5,18,750)
<b>Tax after SC and marginal relief</b>		<b>67,84,375</b>
Add: HEC @ 4%		2,71,375
<b>Tax liability</b>		<b>70,55,750</b>

**B5A. CA2021(JAN)** - Compute the tax liability of Ms. Payal for AY 2023-24, resident in India aged 40 years where her total income is Rs. 5,00,50,000 assuming that there is no income in the nature of capital gains.

■

*Computation of tax liability*

Total income	Rs.	Rs.
First 2,50,000 @ Nil		Nil
Next 2,50,000 @ 5%		12,500
Next 5,00,000 @ 20%		1,00,000
Next 4,90,50,000 @ 30%		1,47,15,000
<b>Tax on total income</b>		<b>1,48,27,500</b>
Less: Rebate u/s 87A: Nil since TI > 5 lakh		-
		1,48,27,500
Add: SC @ 37% as TI > 5 crore		54,86,175
<b>Tax after SC</b>		<b>2,03,13,675</b>
Tax and SC cannot exceed " <b>Tax+SC on 5 Cr + (TI – 5 Cr)</b> " = 1,85,15,625 + (5,00,50,000 - 5,00,00,000)	1,85,65,625	
Marginal Relief	2,03,13,675 – 1,85,65,625	(17,48,050)
<b>Tax after SC and marginal relief</b>		<b>1,85,65,625</b>
Add: HEC @ 4%		7,42,625
<b>Tax liability</b>		<b>1,93,08,250</b>

**B6. Mr. Taxing, aged 56 years, has furnished the following details of his total income for PY 2022-23.**

Income from Salaries (computed)	26,60,000
Income from House Property (computed)	17,00,000
Interest income from FDRs	6,90,000

He has not claimed any deduction under Chapter VIA. Compute his tax liability for AY 2023-24. Assume that he has not opted for section 115BAC.

■ Total income = Rs. 50,50,000. Tax liability is computed as under.

Computation	Rs.	Rs.
First 2,50,000 @ Nil		Nil
Next 2,50,000 @ 5%		12,500
Next 5,00,000 @ 20%		1,00,000
Next 40,50,000 @ 30%		12,15,000
<b>Tax on total income</b>		<b>13,27,500</b>
Less: Rebate u/s 87A: Nil since TI > 5 lakh		-
		58,42,500
Add: Surcharge @ 10% as TI > 50 lakh and up to 1 crore		1,32,750
<b>Tax after SC</b>		<b>14,60,250</b>
Tax and SC cannot exceed " <b>Tax on 50 L + (TI - 5 L)</b> " = 13,12,500 + (50,50,000 - 50,00,000)	13,62,500	
Marginal Relief	14,60,250 - 13,62,500	(97,750)
<b>Tax after SC and marginal relief</b>		<b>13,62,500</b>
Add: HEC @ 4%		54,500
<b>Tax liability</b>		<b>14,17,000</b>

**B7.** Mr. Hero, aged 45 years, has total income of Rs. 5,01,00,000 for PY 2022-23 comprising income from business and house property. Compute tax liability for AY 2023-24. Assume that he has not opted for section 115BAC.

■

*Computation of tax liability*

Total income	Rs.	Rs.
First 2,50,000 @ Nil		Nil
Next 2,50,000 @ 5%		12,500
Next 5,00,000 @ 20%		1,00,000
Next 4,91,00,000 @ 30%		1,47,30,000
<b>Tax on total income</b>		<b>1,48,42,500</b>
Less: Rebate u/s 87A: Nil since TI > 5 lakh		-
		1,48,42,500
Add: SC @ 37% as TI is > 5 crore		54,91,725
<b>Tax after SC</b>		<b>2,03,34,225</b>
Tax and SC cannot exceed " <b>Tax+SC on 5 Cr + (TI - 5 Cr)</b> " = 1,85,15,625 + (5,01,00,000 - 5,00,00,000)	1,86,15,625	
Marginal Relief	2,03,34,225 - 1,86,15,625	(17,18,600)

<b>Tax after SC and marginal relief</b>		<b>1,86,15,625</b>
Add: HEC @ 4%		7,44,625
<b>Tax liability</b>		<b>1,93,60,250</b>

**B8.** Mrs. Mature, a resident, was born on 1<sup>st</sup> April 1963. Her total income for PY 2022-23, comprising income from house property, is Rs. 5 lakh. Compute tax liability for AY 2023-24. Assume that she has not opted for section 115BAC.

■ Age of Mrs. Mature is 60 years on 31.3.2023 as per Circular 28/2016. Since she is a resident, she is a senior citizen for PY 2022-23. Tax liability is computed as below.

<b>Total income</b>	<b>Rs.</b>
First 3,00,000 @ Nil	Nil
Next 2,00,000 @ 5%	10,000
<b>Tax on total income</b>	<b>10,000</b>
Less: Rebate u/s 87A = Lower of (a) 10,000 or (b) 12,500	(10,000)
<b>Tax after rebate</b>	<b>Nil</b>
Add: HEC @ 4%	Nil
<b>Tax liability</b>	<b>Nil</b>

**B9.** Mr. PK is a non-resident and 35 years of age. His total income for PY 2022-23, comprising income from house property, is Rs. 3 lakh. Compute tax liability for AY 2023-24. Assume that he has not opted for section 115BAC.

■

*Computation of tax liability*

<b>Computation</b>	<b>Rs.</b>
First 2,50,000 @ Nil	Nil
Next 50,000 @ 5%	2,500
<b>Tax on total income</b>	<b>2,500</b>
Less: Rebate u/s 87A: Nil since he is a non resident	-
<b>Tax after rebate</b>	<b>2,500</b>
Add: HEC @ 4%	100
<b>Tax liability</b>	<b>2,600</b>

**B10.** Mr. Hero, resident aged 30 years, has total income of Rs. 4 lakh for PY 2022-23 comprising interest from bank. Compute tax liability for AY 2023-24. Assume that he has not opted for section 115BAC.

■

*Computation of tax liability*

<b>Computation</b>	<b>Rs.</b>
First 2,50,000 @ Nil	Nil
Next 1,50,000 @ 5%	7,500
<b>Tax on total income</b>	<b>7,500</b>
Less: Rebate u/s 87A = Lower of Rs. 7,500 or Rs. 12,500	(7,500)



<b>Tax after rebate</b>	<b>Nil</b>
Add: HEC @ 4%	Nil
<b>Tax liability</b>	<b>Nil</b>

**B11.** Mr. X, resident aged 36 years, has total income of Rs. 1.51 crore for PY 2022-23 comprising business income of Rs. 1.25 crore, long term capital gain u/s 112A of Rs. 16 lakh and short term capital gain u/s 111A of Rs. 10 lakh. Compute tax liability for AY 2023-24. Assume that he has not opted for section 115BAC.

■

*Computation of tax liability*

Particulars	Rs.
Tax on long term capital gain u/s 112A (exceeding Rs. 1 lakh) @ 10% of Rs. 15 lakh	1,50,000
Tax on short term capital gain u/s 111A @ 15% of Rs. 10 lakh	1,50,000
Tax on other income of Rs. 1.25 crore	35,62,500
Tax on total income	38,62,500
Less: Rebate u/s 87A: Not available as TI > Rs. 5 lakh	-
	38,62,500
Add : SC @ 15% as TI is > Rs. 1 crore and up to Rs. 2 crore	5,79,375
Tax and SC	44,41,875
Add : HEC @ 4%	1,77,675
<b>Tax liability</b>	<b>46,19,550</b>

**B12.** Mr. Q, resident aged 66 years, has total income of Rs. 4 crore for PY 2022-23 comprising business income of Rs. 3.25 crore, long term capital gain u/s 112 of Rs. 50 lakh and short term capital gain u/s 111A of Rs. 25 lakh. Compute tax liability for AY 2023-24. Assume that he has not opted for section 115BAC.

■

*Computation of tax liability*

Particulars	Rs.
Tax on long term capital gain u/s 112 @ 20%	10,00,000
Tax on short term capital gain u/s 111A @ 15%	3,75,000
Tax on other income	95,60,000
Tax on total income	1,09,35,000
Less: Rebate u/s 87A: Not available as TI > Rs. 5 lakh	-
	1,09,35,000
Add : SC @ 15% on tax u/s 111A/112 and @ 25% of tax on other income since TI is > Rs. 2 crore and income, other than that u/s 111A/112, is > Rs. 2 crore	25,96,250
Tax and SC	1,35,31,250
Add : HEC @ 4%	5,41,250
<b>Tax liability</b>	<b>1,40,72,500</b>

**B13. CA2022(MAY)** – The assessee is found to be the owner of the gold (market value of which is Rs. 50,00,000) during the financial year ending 31-03-2023 but he recorded to have spent Rs. 10,00,000 in acquiring the same. Explain how the Assessing Officer will deal with the issue.

■ Where in any FY the assessee is found to be the owner of any bullion, jewellery or other valuable article, and the AO finds that the amount spent thereon exceeds the amount recorded in the books of account, and the assessee offers no or unsatisfactory explanation about such excess amount, the excess can be deemed to be the income of the assessee for such FY. Thus, in this case, the AO can bring Rs. 40,00,000 to tax for the AY 2023-24. Tax would be levied u/s 115BBE @ 60% + 25% SC and 4% HEC. Tax = Tax of 24,00,000 + SC of 6,00,000 + HEC @ 4% of tax and SC of 1,20,000 = 31,20,000.

**B14. MASTER QUESTION** - Mr. B, resident aged 85 years, has total income of Rs. 60 lakh for PY 2022-23 comprising business income of Rs. 30 lakh, long term capital gain u/s 112 of Rs. 10 lakh, short term capital gain u/s 111A of Rs. 10 lakh and winnings from lottery of Rs. 10 lakh. Compute tax liability for AY 2023-24. Assume that he has not opted for section 115BAC.

Computation of tax liability

Particulars	Rs.
Tax on long term capital gain u/s 112 @ 20%	2,00,000
Tax on short term capital gain u/s 111A @ 15%	1,50,000
Tax on winning from lottery u/s 115BB @ 30%	3,00,000
Tax on other income	7,00,000
Tax on total income	13,50,000
Less: Rebate u/s 87A: Not available as TI > Rs. 5 lakh	-
	13,50,000
Add : SC @ 10% as TI > Rs. 50 lakh and up to Rs. 1 crore	1,35,000
Tax and SC	14,85,000
Add : HEC @ 4%	59,400
<b>Tax liability</b>	<b>15,44,400</b>

**B15-19. MASTER QUESTION** - Compute the tax liability of Mr. Jacob in the following cases for the AY 2023-24. Assume that he has not opted for section 115BAC.

Particulars	I	II	III	IV	V
Residential status	Resident	Non resident	Resident	Resident	Resident
Age	36	66	86	45	61
Total income	4,50,000	3,85,000	65,00,000	3,65,00,000	4,70,000
Nature of income	Business income	Salary	Salary	Business income	Lottery prize

Computation of tax liability

Particulars	I	II	III	IV	V
Tax on total income (30% in Case V u/s 115BB)	10,000	6,750	17,50,000	1,07,62,500	1,41,000
Less: Rebate u/s 87A for resident individual if TI ≤ 5 lakh	(10,000)	-	-	-	(12,500)
	-	6,750	17,50,000	1,07,62,500	1,28,500
Add: Surcharge if TI > 50 lakh (@ 10% in Case III; @ 25% in Case IV)	-	-	1,75,000	26,90,625	-
	-	6,750	19,25,000	1,34,53,125	1,28,500
Add: HEC @ 4%	-	270	77,000	5,38,125	5,140
<b>Tax liability</b>	-	<b>7,020</b>	<b>20,02,000</b>	<b>1,39,91,250</b>	<b>1,33,640</b>

# MCQ

**Solve all questions assuming that assessee has not opted for section 115BAC (para 210)**

**M1.** Suhani, a resident aged 30 years and having a total income of Rs. 4,90,000 for the PY 2022-23, computed her tax liability. Which of the following method adopted by her is correct?

- (a) Tax on total income of Rs. 12,000, add HEC @ 4% of Rs. 480, less rebate u/s 87A of Rs. 12,480, add SC of Nil
- (b) Tax on total income of Rs. 12,000, less rebate u/s 87A of Rs. 12,000, add SC of Nil, add HEC @ 4% of Nil
- (c) Tax on total income of Rs. 12,000, add SC of Nil, add HEC @ 4% of Rs. 480, less rebate u/s 87A of Rs. 12,480
- (d) Tax on total income of Rs. 12,000, add HEC @ 4% of Rs. 480, add SC of Nil, less rebate u/s 87A of Rs. 12,480

**M2.** Tax liability is rounded off as per the below method:

- |  |  |
|--|--|
| (a) Ignore paise   | (b) Ignore paise; increase amount to next higher multiple of 10  |
| (c) Ignore paise; reduce amount to next lower multiple of 10 | (d) Ignore paise; if last figure is 5 or more, increase to next higher multiple of 10; if last figure is less than 5 reduce to next lower multiple of 10 |

**M3.** Tax of Rs. 1,25,548.25 will be rounded off to \_\_\_\_\_.

**M4.** Basic exemption limit is Rs. 2,50,000 for:

- |  |                      |
|--|----------------------|
| (a) Mr. X, a non-resident, of age 65 years | (b) Rajesh HUF       |
| (c) Diety of a famous temple               | (d) All of the above |

**M5.** Romit is a resident in India of age 60 years. He wants to know the maximum total income he can have to keep his tax liability Nil. Advise Romit.

- |              |              |
|--------------|--------------|
| (a) 3,00,000 | (b) 5,00,000 |
| (c) 2,50,000 | (d) Nil      |

**M6.** Mrs. Sharma is a resident in India of age 80 years. She wants to know the maximum total income she can have to keep her tax liability Nil.

- |              |              |
|--------------|--------------|
| (a) 3,00,000 | (b) 5,00,000 |
| (c) 2,50,000 | (d) Nil      |

**M7.** Mr. John is a non-resident individual of age 70 years as on 31.3.2023. He wants to know the maximum total income he can have in India to keep his tax liability Nil.

- |              |                        |
|--------------|------------------------|
| (a) 2,50,000 | (b) 3,00,000           |
| (c) 5,00,000 | (d) No basic exemption |

**M8.** Basic exemption limit for AY 2023-24 for Mrs. World, a non-resident, who turns 60 years of age on 31.3.2023, is:

- |              |                        |
|--------------|------------------------|
| (a) 2,50,000 | (b) 3,00,000           |
| (c) 5,00,000 | (d) No basic exemption |

**M9.** Basic exemption limit for AY 2023-24 for Mr. World, a resident, who turns 80 years of age on 1.4.2023, is:

- |              |                        |
|--------------|------------------------|
| (a) 2,50,000 | (b) 3,00,000           |
| (c) 5,00,000 | (d) No basic exemption |

**M10.** Ruma, an individual of age 40 years having total income of Rs. 2.5 lakh, wants to know the highest tax rate slab applicable to her income for AY 2023-24. Please advise her.

- |         |         |
|---------|---------|
| (a) Nil | (b) 5%  |
| (c) 20% | (d) 30% |

**M11.** Rocky is a non-resident individual of age 60 years having total income of Rs. 3 lakh for the PY 2022-23. What will be the highest tax rate slab applicable to his income?

- |         |         |
|---------|---------|
| (a) Nil | (b) 5%  |
| (c) 20% | (d) 30% |

**M12.** Mr. Jagan is a resident individual of age 80 years having total income of Rs. 10 lakh for the PY 2022-23. He wants to know the maximum rate of tax at which he will be chargeable. Please advise.

- |         |         |
|---------|---------|
| (a) Nil | (b) 5%  |
| (c) 20% | (d) 30% |

**M13.** Mr. Jain is an elderly individual resident in India. He wants to know whether, based on his date of birth, he would be eligible to avail the basic exemption limit of Rs. 3,00,000 or above for PY 2022-23. Please advise him on the date of birth.

- |                         |                        |
|-------------------------|------------------------|
| (a) 1.4.1963 or before  | (b) 2.4.1963 or before |
| (c) 31.3.1963 or before | (d) 1.4.1943 or before |

**M14.** Rashmi, aged 40 years, has total income of Rs. 50 lakh for PY 2022-23. Her tax liability would be:

- |               |               |
|---------------|---------------|
| (a) 13,12,500 | (b) 14,43,750 |
| (c) 15,01,500 | (d) 13,65,000 |

**M15.** Maximum rate of SC leviable in case of individual is \_\_\_\_\_

**M16.** Roma, aged 35 years, has a total income of Rs. 6.5 crore which includes dividend income and income u/s 111A and 112A of Rs. 1 crore. She wants to know the rate of surcharge that will be levied for AY 2023-24. Please advise her.

- |   |   |
|---|---|
| (a) 15% on tax on total income  | (b) 37% on tax on total income  |
| (c) 15% on tax on dividend/111A/112A income; 37% on tax on other income | (d) Nil on tax on dividend/111A/112A income; 37% on tax on other income |

**M17.** Rishi, aged 50 years, has a total income of 5 crore, comprising business income, for the PY 2022-23. Compute his tax liability.

- |                 |                 |
|-----------------|-----------------|
| (a) 2,11,04,850 | (b) 1,77,15,750 |
| (c) 1,85,15,625 | (d) 1,92,56,250 |

**M18.** SC is leviable on which of the following persons?

- |   |   |
|---|---|
| (a) Only on individuals/HUF/AOP/BOI/AJP | (b) All persons, except cooperative society |
| (c) All persons                         | (d) Only on companies                       |

**M19.** Rate of surcharge in case of Keshav, a non-resident of age 35 years, having a total income of Rs. 2 crore for PY 2022-23, comprising business income, will be \_\_\_\_.

**M20.** For computing marginal relief in case of individual having total income of 2.5 crore (comprising income from house property), one needs to ensure that Tax and SC does not exceed the following:

- |  |                                    |
|--|------------------------------------|
| (a) Tax on 2.5 Cr + (TI – 2 Cr)        | (b) Tax+SC on 2 Cr + (TI – 2.5 Cr) |
| (c) Tax on TI + (Tax on 2.5 Cr – 2 Cr) | (d) Tax+SC on 2 Cr + (TI – 2 Cr)   |

**M21.** Marginal relief is provided on:

- |                            |                                     |
|----------------------------|-------------------------------------|
| (a) Tax and surcharge      | (b) Tax only                        |
| (c) Tax, surcharge and HEC | (d) Tax and HEC less rebate u/s 87A |

**M22.** Kapil, resident of age 55 years, has a total income of Rs. 55 lakh for PY 2022-23. Compute the amount of HEC that he will need to pay?

- |            |              |
|------------|--------------|
| (a) 58,500 | (b) 64,350   |
| (c) 5,850  | (d) 2,20,000 |

**M23.** Which of the following persons can claim exemption from levy of HEC?

- |                 |                                 |
|-----------------|---------------------------------|
| (a) Individuals | (b) Individuals/HUF/AOP/BOI/AJP |
| (c) Companies   | (d) None                        |

**M24.** Compute the tax liability of Mrs. Z, a resident of age 55 years, having a total income of Rs. 102 lakh for PY 2022-23 comprising profits and gains of business or profession.

- |               |               |
|---------------|---------------|
| (a) 34,35,510 | (b) 34,25,500 |
| (c) 34.45,650 | (d) 34,65,500 |

**M25.** Compute the tax liability of Mr. Y, a resident of age 65 years, having a total income of Rs. 2,08,00,000 for PY 2022-23 comprising incomes from salary and house property.

- |               |               |
|---------------|---------------|
| (a) 78,65,000 | (b) 72,35,800 |
| (c) 69,21,200 | (d) 77,80,760 |

**M26.** Compute the amount of marginal relief from surcharge available to Mr. Q, a resident of age 85 years, having a total income of Rs. 5,30,00,000 for PY 2022-23 comprising incomes from house property and short term capital gain from sale of plots of land.

- |           |            |
|-----------|------------|
| (a) 9,000 | (b) 10,000 |
| (c) 8,000 | (d) Nil    |

**M27.** Compute the amount of marginal relief from surcharge available to Mr. T, a resident of age 45 years, having a total income of Rs. 52,50,000 for PY 2022-23 comprising incomes from salary and house property.

- |           |            |
|-----------|------------|
| (a) 7,500 | (b) 8,000  |
| (c) Nil   | (d) 24,850 |

**M28.** Total income of an artificial juridical person is Rs. 4,10,000 for PY 2022-23. Income-tax, rebate u/s 87A and surcharge for AY 2023-24 would be:

- |                     |                        |
|---------------------|------------------------|
| (a) 8,000; nil; nil | (b) 16,000; 8,000; nil |
| (c) Nil; nil; nil   | (d) 8,000; 8,000; nil  |

**M29.** Which of the following computation of tax liability is correct?

- |   |   |
|---|---|
| (a) Mr. X, of age 35, has total income of Rs. 6,00,000. Tax liability = Rs. 20,000 (Tax of Rs. 32,500 – Rebate of Rs. 12,500) + 4% HEC of Rs. 800 = Rs. 20,800. | (b) Mr. X, resident of age 35, has total income of Rs. 5,00,000. Tax liability = Rs. 12,500 (Tax of Rs. 12,500 – Rebate of Nil) + 4% HEC of Rs. 500 = Rs. 13,000. |
| (c) Mr. X, resident of age 35, has total income of Rs.  | (d) Mr. X, resident of age 35, has total income of Rs.  |

4,99,900. Tax liability = Rs. Nil (Tax of Rs. 12,495 – Rebate of Rs. 12,495) + 4% HEC of Nil = Nil.

5,00,000. Tax liability = Rs. 13,000 (Tax of Rs. 12,500 + HEC @ 4% of Rs. 500) – Rebate of Rs. 12,500 = Rs. 500.

**M30.** Mr. Mehta, a resident of age 40, has gross total income of Rs. 4,50,000. There are no further deductions allowable to him under Chapter VIA from gross total income. Which of the following approaches to calculate his tax liability for AY 2023-24 is correct?

- (a)  $TI = 4,50,000 - \text{Rebate u/s 87A of Rs. 12,500} = \text{Rs. } 4,37,500$ . Tax on TI = Rs. 9,375 + 4% HEC of Rs. 375 = Rs. 9,750.
- (b)  $TI = 4,50,000$ . Tax on TI = Nil (Tax of Rs. 10,000 – Rebate of Rs. 10,000) + 4% HEC of Nil = Nil.
- (c)  $TI = 4,50,000$ . Tax on TI = Rs. 10,400 (Tax of Rs. 10,000 + 4% HEC of Rs. 400) – Rebate of Rs. 10,400 = Nil.
- (d)  $TI = 4,50,000$ . Tax on TI = Nil (Tax of Rs. 10,000 – Rebate of Rs. 10,000) + 4% HEC (on Tax) of Rs. 400 = Rs. 400.

**M31.** An assessee has total income of Rs. 1,000 for the PY 2022-23. Under which of the following categories should the assessee fall so as to be liable to pay tax on the total income?

- (a) Firm, LLP (b) Cooperative society, local authority
- (c) Domestic company, foreign company (d) All of the above

**M32.** Rate of tax is not 30% for AY 2023-24 in which of the following cases:

- (a) JK & Co, partnership firm, having a total income of Rs. 50,000 for PY 2022-23 (b) Ahmedabad Municipal Corporation having a total income of Rs. 1,50,000 for PY 2022-23
- (c) BCD Ltd., an Indian company, having total turnover of Rs. 401 crore in PY 2020-21, Rs. 400 crore in PY 2021-22 and Rs. 390 crore in PY 2022-23, with a total income of Rs. 50 crore for PY 2022-23 (d) KLM Ltd., a foreign company, having total turnover of Rs. 401 crore in PY 2020-21, Rs. 400 crore in PY 2021-22 and Rs. 390 crore in PY 2022-23, with a total income of Rs. 50 crore for PY 2022-23

**M33.** Delhi Municipal Corporation, BNP & Co. partnership firm and Vadodara co-operative society are your clients. They want to ascertain the rate at which surcharge will be levied on tax computed on their total income of Rs. 11 crore.

- (a) 10% (b) 12%
- (c) 7% (d) 15%

**M34.** Which of the following is not true?

- (a) FAR Ltd., an Indian company, having total turnover of Rs. 500 crore, is amenable to SC @ 12%, irrespective of total income (b) FAR Ltd., a foreign company, having total income of Rs. 100 crore is amenable to SC @ 5%
- (c) FAR Ltd., having total income being a loss of Rs. 1 crore, is amenable to SC @ Nil rate (d) FAR Ltd., an Indian company, having total income of Rs. 1 crore is amenable to SC @ Nil rate

**M35.** Mr. Y, a resident of age 75 years, won a lottery prize of Rs. 60 lakh on 15.9.2022. He has no other source of income. Compute his tax liability for AY 2023-24.

- (a) 19,80,000 (b) 18,41,840
- (c) 20,59,200 (d) 18,72,000

**M36.** Mr. Q, a resident of age 55 years, has total income for AY 2023-24 comprising short term capital gain u/s 111A of Rs. 6 crore and income from house property of Rs. 10 lakh. Compute his tax liability.

- (a) 1,08,98,550 (b) 91,12,500
- (c) 1,24,84,125 (d) 1,13,90,625

**M37.** Incomes from undisclosed sources u/s 68 to 69D are taxed on gross basis, i.e., without deduction of any expenditure or set-off of any loss.

- (a) True (b) False

**M38.** Mr. Swindle is found to be the owner of two gold chains of 30 gms each (market value of both Rs. 2,90,000) during the financial year 2022-23. However, he could offer satisfactory explanation in respect of Rs. 50,000 spent on acquiring these chains. What is the amount of tax he would be liable to pay as per section 115BBE?

- (a) 1,87,200 (b) 2,26,200
- (c) 1,49,760 (d) 1,80,960

## Answer Key

M1 B; M2 D; M3 1,25,550; M4 D; M5 B; M6 B; M7 A; M8 A; M9 B; M10 A; M11 B; M12 C; M13 A; M14 D; M15 37%; M16 C; M17 D; M18 C; M19 15%; M20 D; M21 A; M22 B; M23 D; M24 B; M25 D; M26 A; M27 C; M28 A; M29 C; M30 B; M31 D; M32 D; M33 B; M34 A; M35 C; M36 A; M37 A; M38 A

## Hints to MCQ answers

- M1.** Correct sequence is tax on total income, rebate u/s 87A, SC, HEC
- M3.** Ignore pause. Round off to next higher multiple of 10 as last figure is 5 or more.
- M6.** Romit is senior citizen. Tax on TI of 5L = 10,000 – Rebate u/s 87A 10,000 = Nil. Rebate not available over TI of 5L.
- M6.** BEL for super senior citizen is 5L. Rebate u/s 87A is not available if TI > 5L.
- M7.** BEL is 2.5 lakh and rebate u/s 87A is not available to non-resident.
- M8.** Non resident is not a senior citizen. BEL of 2.5 lakh will apply.
- M9.** He is not a super senior citizen at any time during PY 2022-23. He is a senior citizen. He becomes super senior citizen in PY 2023-24 when he turns 80.
- M10.** Tax is not leviable up to TI of 2.5 lakh.
- M11.** Rocky is not a senior citizen as he is a non resident. Normal tax rate slab will apply @ 5% for TI up to 5 lakh.
- M12.** Super senior citizen is chargeable at 20% rate for TI exceeding 5 lakh and up to 10 lakh.
- M13.** Resident individual born on 1.4.1963 will be 60 years of age on 31.3.2023 and will thus be a senior citizen for PY 2022-23 entitled to BEL of 3 lakh. Similarly, a resident individual born on 1.4.1943 will be 80 years of age on 31.3.2023 and will thus be a super senior citizen for PY 2022-23 entitled to BEL of 5 lakh. Thus, date of birth should be 1.4.1963 or before to become a senior citizen or super senior citizen for PY 2022-23.
- M14.** Tax = 13,12,500 + 4% HEC of 52,500 = 13,65,000. SC is Nil up to TI of 50 lakh.
- M16.** SC in respect of tax on dividend/111A/112A cannot exceed 15%. 37% SC on tax on other income since it exceeds 5 crore.
- M17.** Tax on 5 Cr = 1,48,12,500. SC @ 25% = 37,03,125. HEC @ 4% on Tax+SC = 7,40,625. Total = 1,92,56,250.
- M22.** Tax + SC = 14,62,500 + 1,46,250 = 16,08,750. HEC @ 4% = 64,350.
- M24.** Tax on TI = 28,72,500. SC @ 15% = 4,30,875. // **A:** Tax and SC = 33,03,375 // **B:** Tax+SC on 1 Cr + (TI – 1 Cr) = 30,93,750 + 2,00,000 = 32,93,750. // Marginal relief = A – B = 9,625 // Tax after SC and marginal relief = 32,93,750 // HEC @ 4% = 1,31,750 // Total = 34,25,500
- M25.** Tax on TI = 60,50,000. SC @ 25% = 15,12,500 // **A:** Tax and SC = 75,62,500 // **B:** Tax+SC on 2 Cr + (TI – 2 Cr) = 66,81,500 + 8,00,000 = 74,81,500 // Marginal relief = A – B = 81,000 // Tax after SC and marginal relief = 74,81,500 // HEC @ 4% = 2,99,260 // Total = 77,80,760
- M26.** STCG from sale of plots of land is not covered u/s 111A or 112A. Tax on TI = 1,57,00,000. SC @ 37% = 58,09,000. // **A:** Tax and SC = 2,15,09,000 // **B:** Tax+SC on 5 Cr + (TI – 5 Cr) = 1,85,00,000 + 30,00,000 = 2,15,00,000 // Marginal relief = A – B = 9,000
- M27.** Tax on TI = 13,87,500. SC @ 10% = 1,38,750. // **A:** Tax and SC = 15,26,250 // **B:** Tax+SC on 50 lakh + (TI – 50 lakh) = 13,12,500 + 2,50,000 = 15,62,500 // Marginal relief = A – B = Nil
- M28.** Tax on TI = 8,000. Rebate u/s 87A = Nil as not allowed to AJP. SC = Nil as TI ≤ 50L.
- M31.** BEL for all these persons is Nil.
- M32.** Rate for foreign company is 40% (50% on royalty/FTS in certain cases). Rate for BCD Ltd. is 30% as total turnover of PY 2020-21 > 400 crore.
- M33.** SC is leviable @ 12% for TI > 1 crore in case of local authority and firm and for TI > 10 crore in case of co-operative society.
- M34.** Rate of SC is based on total income, not on total turnover.
- M35.** Tax = 30% of 60 lakh = 18,00,000. SC @ 10% = 1,80,000. HEC @ 4% on Tax+SC = 79,200. Total = 20,59,200
- M36.** Tax = 90,00,000 (15% of 6 crore) + 1,12,500 (tax on 10 lakh) = 91,12,500. SC @ 15% = 13,66,875, as TI > Rs. 2 crore and income, other than u/s 111A, is up to Rs. 2 crore. Tax + SC = 1,04,79,375. Tax/SC + HEC = 1,08,98,550.
- M38.**

Income taxable u/s 69B = Unexplained excess	2,90,000 – 50,000 = 2,40,000
Tax on 2,40,000 @ 60%	1,44,000
Add: SC @ 25%	36,000
	<b>1,80,000</b>
Add: HEC @ 4%	7,200
<b>Tax liability u/s 115BBE</b>	<b>1,87,200</b>



## 3

# Residential Status & Scope of Total Income

## Build Your Confidence (BYC)

### RESIDENTIAL STATUS

**B1. 182/60 DAY RULE** - Determine residential status of Mr. French, a citizen of France for AY 2023-24, from the following particulars.

Stay particulars in India for PY 2022-23	Visits India four times during PY 2022-23 for 40 days, 50 days, 60 days and 32 days
Stay particulars in India for preceding 4 PY's	Total stay of 400 days
Residential status for preceding 10 PY's	NR in 8 years
Stay particulars in India for preceding 7 PY's	730 days

Special rule applies?	No, since he is not a COI and assuming he is not a PIO either. Check general rules.
182 day rule – Stay condition of $\geq 182$ days in current PY	Stay for 182 days is $\geq 182$ days; satisfied. No need to check 60 day rule.
Resident under general rule?	Yes
First secondary stay condition of NR in 9 out of 10 preceding 10 PY's	Not satisfied
Second secondary stay condition of $\leq 729$ days in preceding 7 PY's	Not satisfied
Residential status	ROR

**B2. 182/60 DAY RULE – CA2011(NOV)** – Brett Lee, an Australian cricket player, visits India for 100 days in every financial year. This has been his practice for the past 10 financial years. Find out his residential status for AY 2023-24.

Particulars	Result
Special rule applies?	No, considering that he is neither COI or PIO. Check general rules.
Period of stay during the previous year 2022-23	100 days
Period of stay during the preceding 4 previous years	400 days
Period of stay during the preceding 7 previous years	700 days
182 day rule – Stay condition of $\geq 182$ days in current PY	Not satisfied
60 day rule -	
:: First basic stay condition of $\geq 60$ days in current PY	Satisfied since stay is of 100 days
:: Second basic stay condition of $\geq 365$ days in preceding 4 PY's	Satisfied since stay is of 400 days
Resident under general rule?	Yes
First secondary stay condition of NR in 9 out of 10 preceding 10 PY's	Details not available. Assumed not satisfied.
Second secondary stay condition of $\leq 729$ days in preceding 7 PY's	Satisfied since stay is of 700 days
Residential status	Resident but not ordinarily resident (RNOR)

**B3. 182/60 DAY RULE** - Mr. US is a US citizen. He visited India for the first time during the PY 2018-19. His stay in India during the financial years 2018-19 to 2022-23 was for 60, 55, 100, 140 and 75 days, respectively. What is his residential status for AY 2023-24? Will your answer change if out of 75 days during FY 2022-23, he stayed for 15 days on a ship located in the territorial waters of India off the coast of Goa?

Particulars	Result
Special rule applies?	No, since he is not a COI and assuming he is not a PIO either. Check general rules.
Period of stay during the previous year 2022-23	75 days
Period of stay during the preceding 4 previous years	355 days
182 day rule – Stay condition of $\geq 182$ days in current PY	Not satisfied
60 day rule -	
:: First basic stay condition of $\geq 60$ days in current PY	Satisfied
:: Second basic stay condition of $\geq 365$ days in preceding 4 PY's	Not satisfied
Resident under general rule?	No
Residential status	Non-resident*

\*Stateless rule will not apply as its conditions are not satisfied.

India includes its territorial waters. Hence, period of stay in India will not change if he stayed for 15 days during FY 2022-23 on the ship located in the territorial waters of India and the answer will remain the same.

**B4-5.182/60 DAY RULE – CA2019(NOV) (modified)** - *Bansuri, a Chinese national, got married to Keshav of India in Beijing on 3 February 2022 and came to India for the first time on 14 February 2022. She left for China on 11 August 2022. Determine her residential status for AY 2023-24 if:*

(a) *She returned to India again on 20 February 2023*

(b) *She returned to India again on 20 January 2023*

■

Particulars	She returned on 20 Feb 2023
Stay during PY 2022-23	1 April 2022 to 11 August 2022 = 133 days 20 Feb 2023 to 31 Mar 2023 = 40 days <b>Total = 173 days</b>
Special rule applies?	No, as she is a foreign national. Check general rules.
182 day rule – Stay condition of $\geq 182$ days in current PY	Not satisfied
60 day rule -	
:: First basic stay condition of $\geq 60$ days in current PY	173 days $\geq 60$ days. Satisfied
:: Second basic stay condition of $\geq 365$ days in preceding 4 PY's	14 Feb 2022 to 31 Mar 2022 = 46 days. Not satisfied
Resident under general rule?	No
Residential status	Non-resident*

\*Stateless rule will not apply as its conditions are not satisfied.

Particulars	She returned on 20 Jan 2023
Stay during PY 2022-23	1 April 2022 to 11 August 2022 = 133 days 20 Jan 2023 to 31 Mar 2023 = 71 days <b>Total = 204 days</b>
Special rule applies?	No, as she is a foreign national. Check general rules.
182 day rule – Stay condition of $\geq 182$ days in current PY	204 days $\geq 182$ days. Satisfied
Resident under general rule?	Yes
First secondary stay condition of NR in 9 out of 10 preceding 10 PY's	Satisfied, since she stayed only for 46 days during PY 2021-22 and did not visit India earlier
Second secondary stay condition of $\leq 729$ days in preceding 7 PY's	Satisfied, since stay is 46 days
Residential status	Resident but not ordinarily resident (RNOR)

**B6. SHIP CREW RULE – CA2017(MAY) (modified)** - *During the last 4 years preceding the PY 2022-23, Damodhar, a citizen of India, was present in India for 430 days. During the preceding 7 PY's, he was present in India for 830 days. He was a non-resident for 3 out of preceding 10 years.*

*Damodhar is a member of crew of a Dubai bound Indian ship, carrying passengers in the international waters, which left Kochi port in Kerala on 12 August 2022. The dates entered into the Continuous Discharge Certificate in respect of joining of the ship and signing off the ship by Damodhar are 12 August 2022 and 21 January 2023, respectively.*

*In May 2022, he had gone out of India to Singapore and Malaysia on a private tour for a continuous period of 29 days. Determine his residential status for AY 2023-24.*

*What would be your answer if Damodhar had not gone to Singapore and Malaysia?*



Where an Indian citizen leaves India as a member of crew of an Indian ship, he will be resident in India only if he stays in India for 182 days or more during the previous year.

As per Rule 126, in case of an individual, being a citizen of India and a member of the crew of a foreign bound ship leaving India, the period or periods of stay in India shall, in respect of an eligible voyage, not include the period commencing from the date entered into the CDC in respect of joining the ship by the said individual for the eligible voyage and ending on the date entered into the CDC in respect of signing off from the ship in respect of such voyage. Eligible voyage includes a voyage undertaken by an Indian ship in the carriage of passengers in international traffic, originating from any port in India and having its destination at a port outside India. In this case, voyage is undertaken by a foreign bound Indian ship engaged in the carriage of passengers in international traffic, originating from a port in India and having its destination at a port outside India. Hence, the voyage is an eligible voyage.

Particulars	Singapore/Malaysia trip
Special rule applies?	Ship crew rule, as he is COI who leaves India in PY as member of crew of an Indian ship
Stay during PY 2022-23	Period from 12 August 2022 to 21 January 2023, i.e., 163 days, has to be excluded for computing period of stay of Damodhar in India. Further, 29 days with respect to the private tour outside India will also be excluded. Hence, Damodhar is in India during the previous year 2022-23 for 173 days.
Ship crew rule - Condition of $\geq 182$ days in current PY	Not satisfied
Resident under special rule?	No
Residential status	Non-resident*

\*Assuming stateless rule does not apply

Particulars	No Singapore/Malaysia trip
Special rule applies?	Ship crew rule, as he is COI who leaves India in PY as member of crew of an Indian ship
Stay during PY 2022-23	Period of 29 days will not be excluded from stay in India during PY 2022-23 which will then be $173 + 29 = 202$ days.
Ship crew rule - Condition of $\geq 182$ days in current PY	$202 \text{ days} \geq 182 \text{ days}$ . Satisfied
Resident under special rule?	Yes
First secondary stay condition of NR in 9 out of 10 preceding 10 PY's	NR in 3 out of 10 preceding years. Not satisfied
Second secondary stay condition of $\leq 729$ days in preceding 7 PY's	Not satisfied, since stay is 830 days in preceding 7 PY's
Residential status	Resident and ordinarily resident (ROR)

**B7-9. MASTER QUESTION - SHIP CREW, EMPLOYMENT RULE -** Suraj is a citizen of India. He has been staying in India all along. He left India for the first time on 22.9.2022 as he had been given a project by his employer which was carried out in Brazil.

1. What is his residential status for AY 2023-24?
2. What would be your answer if he left India on a personal tour and returned only during April 2023?
3. Will your answer change if he left India as a member of the crew of an Indian ship and the Continuous Discharge Certificate mentions 25 September 2022 and 31 December 2022 as the dates for joining and signing off the ship?

Particulars	Left for purposes of employment
Special rule applies?	Employment rule, since he is a COI who leaves India in PY for the purposes of employment outside India.
Stay during PY 2022-23	1 Apr to 22 Sep = 175 days
Employment rule – Stay condition of $\geq 182$ days in current PY	Not satisfied since $< 182$ days
Resident under special rule?	No
Residential status	Non-resident*

\*Assuming stateless rule does not apply

Particulars	Left on personal tour
Special rule applies?	No, as he leaves India on personal tour. Check general rules.
Stay during PY 2022-23	1 Apr to 22 Sep = 175 days
182 day rule – Stay condition of $\geq 182$ days in current PY	Not satisfied
60 day rule -	
:: First basic stay condition of $\geq 60$ days in current PY	Satisfied since $\geq 60$ days

:: Second basic stay condition of $\geq 365$ days in preceding 4 PY's	Satisfied since he did not leave India before PY 2022-23
Resident under general rule?	Yes
First secondary stay condition of NR in 9 out of 10 preceding 10 PY's	Not satisfied since he did not leave India before PY 2022-23
Second secondary stay condition of $\leq 729$ days in preceding 7 PY's	Not satisfied since he did not leave India before PY 2022-23
Residential status	ROR

Particulars	Left as ship crew member
Special rule applies?	Ship crew rule, as he is a COI leaving India in PY as a member of crew of an Indian ship
Stay during PY 2022-23	Period from 25 Sep to 31 Dec of 98 days is to be excluded under Rule 126. Stay during PY = 267 days
Ship Crew – Stay condition of $\geq 182$ days in current PY	Satisfied since $\geq 182$ days
Resident under special rule?	Yes
First secondary stay condition of NR in 9 out of 10 preceding 10 PY's	Not satisfied since he did not leave India before PY 2022-23
Second secondary stay condition of $\leq 729$ days in preceding 7 PY's	Not satisfied since he did not leave India before PY 2022-23
Residential status	ROR

**B10. CA2015(MAY) (modified)** – Bindu, a non-resident, residing in New York since 1993, came back to India on 1.4.2021 for permanent settlement in India. Explain the residential status of Bindu for AY 2023-24.

Particulars	Result
Period of stay during the previous year 2022-23	365 days
Period of stay during the preceding 4 previous years	365 days
Condition of $\geq 182$ days in current PY for becoming a resident	Satisfied
Resident?	Yes
First secondary stay condition of NR in 9 out of 10 preceding 10 PY's	Satisfied since she was not at all in India for 9 out of 10 preceding PYs
Second secondary stay condition of $\leq 729$ days in preceding 7 PY's	Satisfied since stay was only of 365 days
Residential status	Resident but not ordinarily resident (RNOR)

**B11. VISIT RULE** - Shalu is a citizen of India living in Singapore. She wants to come to India during the previous year 2022-23 and stay for the maximum possible period without break, without becoming a resident, even if it means a stay which is spread across two years. Her stay in India during the previous year 2019-20 to 2021-22 has been 100 days. She does not have any income from Indian sources during previous year 2022-23. Please advise Shalu.

**Assessment year 2023-24** - Since Shalu is an Indian citizen who comes on a visit to India and has Total Income (other than income from foreign sources)  $\leq 15$  lakh in the PY, Visit Rule will apply and she will be resident in India only if stay in India is 182 days or more during the previous year. Thus, if Shalu comes to India on 2 October 2022, she would stay in India for 181 days during the previous year 2022-23 and would be a non-resident. Stateless rule will not apply.

**Assessment year 2024-25** - For the preceding 4 previous years, i.e., 2019-20 to 2022-23, Shalu would stay for 100 + 181 days = 281 days. This is less than 365 days. Thus, she would not qualify as resident under the 60 day rule even if her stay in India during the previous year is 60 days or more. She should, however, ensure that her stay is not  $\geq 182$  days. Thus, she should leave India on 28 September 2023 to limit her stay to 181 days.

Thus, in all, her stay can be 362 days without a break.

It is assumed that the law to determine residential status for AY 2023-24 is the same for AY 2024-25 and that stateless rule will not apply in absence of satisfaction of its conditions.

**B12-13. MASTER QUESTION - VISIT, VISIT & INCOME RULE** - Shalu, a citizen of India, lives with her family in New York since 2003. She visited India from 23 March 2022 to 28 September 2022 to take care of her ailing mother. In the last four years, she has visited India for 100 days every year to be with her mother. She does not have any income from Indian sources during the PY 2022-23.

1. What is her residential status for AY 2023-24?
2. Will your answer change if total income (other than income from foreign sources) of Shalu is Rs. 17 lakh during the PY?

Particulars	TI (other than IFS) ≤ 15 lakh	TI (other than IFS) > 15 lakh
Period of stay during the previous year 2022-23	1 April to 28 September = 181 days	1 April to 28 September = 181 days
Special rule applicable	Visit rule, as she is a COI who comes on a visit to India during the PY and total income (other than from foreign sources) is ≤ 15 lakh.	Visit & Income rule, as she is a COI who comes on a visit to India during the PY and total income (other than from foreign sources) is > 15 lakh.
Visit rule – Stay condition of ≥ 182 days in current PY	Not satisfied	-
Visit & Income rule -		
:: First basic stay condition of ≥ 120 days in current PY	-	Satisfied
:: Second basic stay condition of ≥ 365 days in preceding 4 PY's	-	Satisfied since stay is of 400 days
Resident under special rule?	No	Yes
Residential status	Non-resident*	RNOR since stay is ≥ 120 days and < 182 days

\*Stateless rule will not apply as its conditions are not satisfied.

**B14-15. VISIT, VISIT & INCOME RULE** - Mr. Happy, a US citizen, came to India on an assignment from 11 January 2019 to 9 October 2019. He again visited India on 5 July 2021 which ended on 26 May 2022.

1. What is the latest date by which Mr. Happy should depart from India after completing the assignment so as to qualify as non-resident for PY 2022-23 (assume that he shall not be visiting India again for the rest of the year)?
2. What will be your answer if Mr. Happy's grandparent was born in Lahore in 1921 and he has total income (other than income from foreign sources) of Rs. 18 lakh.

Stay during preceding 4 PY's:

PY 2018-19	11 Jan 2019 to 31 Mar 2019	80 days
PY 2019-20	1 Apr 2019 to 9 Oct 2019	192 days
PY 2020-21	-	-
PY 2021-22	5 July 2021 to 31 Mar 2022	270 days
<b>Total</b>		<b>542 days</b>

182/60 day rule (general rules) will apply since Mr. Happy is not a citizen of India and assuming he is also not a PIO and, thus, none of the special rules apply. He qualifies the second basic condition of 60 day rule, i.e., stay of ≥ 365 during preceding 4 PY's. To qualify as NR, Mr. Happy should stay for a maximum of 59 days during PY 2022-23. Period from 1 April 2022 to 26 May 2022 = 56 days. He can stay for 3 more days to limit his stay to 59 days, i.e., till 29 May 2022. In this case, stateless rule will not apply in absence of satisfaction of its conditions.

If Mr. Happy is a PIO and has total income (other than income from foreign sources) of Rs. 18 lakh: Since a grandparent of Mr. Happy was born in undivided India, he would be a person of Indian origin. In such case, Mr. Happy will become a resident if he stays for 120 days or more during the previous year 2022-23 and is in India for 365 days or more during the preceding 4 previous years. This is because Visit & Income rule will apply. He is in India for 542 days during the preceding 4 previous years. Thus, he should leave India latest by 28 July 2022 to limit his stay to 119 days. In this case, stateless rule will not apply in absence of satisfaction of its conditions.

**B16-17. VISIT, VISIT & INCOME RULE** – Saurabh is an Indian citizen, who resides in Finland. Find out his residential status for AY 2023-24 if:

1. He visits India for 100 days in every financial year and has been doing so for the last 10 years. His total income (other than income from foreign sources) does not exceed Rs. 15 lakh
2. He visits India for 120 days in every financial year and his total income (other than income from foreign sources) exceeds Rs. 15 lakh.

Particulars	Case 1	Case 2
Special rule applies?	Visit rule, since he is a COI who comes on a visit to India during PY and total income	Visit & Income rule since he is a COI who comes on a visit to India during PY and total income from Indian

	from Indian sources is not > 15 lakh	sources is > 15 lakh
Period of stay during the previous year 2022-23	100 days	120 days
Period of stay during the preceding 4 previous years	400 days	480 days
Period of stay during the preceding 7 previous years	700 days	840 days
Visit rule – Stay condition of $\geq 182$ days in current PY	Not satisfied since stay < 182 days	-
Visit & Income rule -		
:: First basic condition of $\geq 120$ days in current PY	-	Satisfied since stay $\geq 120$ days
:: Second basic condition of $\geq 365$ days in preceding 4 PY's	-	Satisfied since stay is of 480 days
Resident under special rule?	No	Yes
Residential status	Non-resident*	Resident but not ordinarily resident (RNOR) since stay < 182 days

\*Stateless rule will not apply as its conditions are not satisfied.

**B18. VISIT & INCOME RULE - CA2022(MAY)** – Mrs. Shruti is an Indian citizen, is currently in employment with an overseas company located in UAE. During the previous year 2022-23, she comes to India for 157 days. She is in India for 200 days, 100 days, 76 days and 45 days in the financial years 2018-19, 2019-20, 2020-21 and 2021-22, respectively. Her annual income for the previous year 2022-23 is as follows:

Particulars	Rs.
Income from salary earned and received in UAE	2,00,000
Income earned and received from a house property situated in UAE	5,00,000
Income deemed to be accrued and arise in India	5,00,000
Income from retail business (accrued and received outside India, controlled from India)	10,00,000
Income accrued and arise in India	3,00,000
Life insurance premium paid by cheque in India	1,50,000

Determine the residential status of Mrs. Shruti for the assessment year 2023-24. (Support your Answer with computation)

Special rule applies?	Visit & Income rule since she is a COI who comes on a visit to India during PY and total income (other than income from foreign sources) is > 15 lakh (see working)
Period of stay during the previous year 2022-23	157 days
Period of stay during the preceding 4 previous years	421 days
First basic condition of $\geq 120$ days in current PY	Satisfied
Second basic condition of $\geq 365$ days in preceding 4 PY's	Satisfied
Resident under special rule?	Yes
Residential status	RNOR under Visit & Income rule since stay < 182 days

*Working:* Income from foreign sources = Income which accrues or arises outside India (except income derived from a business controlled in or a profession set up in India) and which is not deemed to accrue or arise in India. Income (other than income from foreign sources) is computed below.

Particulars of income	IFS	Other than IFS
Income from salary earned and received in UAE	2,00,000	-
Income earned and received from a house property situated in UAE	5,00,000	-
Income deemed to accrue/arise in India	-	5,00,000
Income from retail business (accrued and received outside India, controlled from India)	-	10,00,000
Income accrued and arisen in India	-	3,00,000
	7,00,000	18,00,000
Life insurance premium paid by cheque in India: Deduction u/s 80C	-	(1,50,000)
Total income (other than income from foreign sources)		16,50,000

**B19-20. MASTER QUESTION - STATELESS RULE** - Mr. Rakesh lives abroad and he is not liable to tax in any other country or territory by reason of his domicile, residence or any other criteria of similar nature. Determine his residential status for AY 2023-24 in the following situations.

Particulars	Situation 1	Situation 2
Citizen of India?	Yes	No (also not a PIO)
Total income from Indian Sources (i.e., other than from foreign sources)	20 lakh	20 lakh
Stay during visit to India in PY 2022-23	100 days	100 days
Stay in India during preceding 4 PY's	400 days	400 days
Residential status for preceding 10 PY's	NR in 8 years	NR in 8 years
Stay particulars in India for preceding 7 PY's	600 days	600 days

**Situation 1**

Special rule applies?	Visit & Income rule, since he is a COI who comes on visit to India in PY and his Total Income from Indian sources > 15 lakh
Visit & Income rule -	
:: First stay condition of $\geq 120$ days in current PY	Not satisfied
:: Second stay condition of $\geq 365$ days in preceding 4 PY's	Satisfied
Resident under special rule?	No
Stateless rule applies?	Yes, since he is COI having Total Income from Indian sources > 15 lakh and is not liable to tax in any other country or territory by reason of his domicile, residence or any other criteria of similar nature
Residential status	Deemed resident (RNOR)

**Situation 2**

Special rule applies?	No, since he is neither a COI nor PIO. Check general rules.
182 day rule – Stay condition of $\geq 182$ days in current PY	Stay of 100 days < 182 days; not satisfied
60 day rule -	
:: First basic stay condition of $\geq 60$ days in current PY	Stay of 100 days is $\geq 60$ days – Satisfied.
:: Second basic stay condition of $\geq 365$ days in preceding 4 PY's	Stay is $\geq 365$ days in preceding 4 years (400 days) – Satisfied
Resident under general rule?	Yes
First secondary stay condition of NR in 9 out of 10 preceding 10 PY's	Not satisfied
Second secondary stay condition of $\leq 729$ days in preceding 7 PY's	Satisfied
<b>Residential status</b>	<b>RNOR</b>

**B21-22. STATELESS RULE** - Mr. Zen lives abroad and he is not liable to tax in any other country or territory as he does not meet the residence, domicile or any other relevant criteria. He visited India during the year 2022-23 for a period of 10 days. His stay in India during the preceding 4 previous years is 100 days and during the preceding 7 previous years is 200 days. Determine his residential status for AY 2023-24 if:

(a) He is a citizen of India and his total income (other than income from foreign sources) is Rs. 20 lakh.

(b) He is neither a citizen of India nor PIO and his total income (other than income from foreign sources) is Rs. 10 lakh.

**Situation (a)** - Since Mr. Zen is a citizen of India having total income (other than income from foreign sources) of more than Rs. 15 lakh during the previous year and he is not liable to tax in any other country by reason of his residence, domicile or any other relevant criteria, he would be deemed to be a resident under the stateless rule, irrespective of his stay in India, since he is not a resident under any other rule (as stay in India during PY 2022-23 is only 10 days). Further, he would become a resident but not ordinarily resident (RNOR) due to express provisions of the Act.

**Situation (b)** - Since Mr. Zen is neither a citizen of India nor a PIO, special rules would not apply. The general 182 day or 60 day rule would apply.

Particulars	Result
182 day rule – Stay condition of $\geq 182$ days in current PY	Not satisfied
60 day rule -	
:: First basic stay condition of $\geq 60$ days in current PY	Not satisfied
:: Second basic stay condition of $\geq 365$ days in preceding 4 PY's	Not satisfied
Resident under general rule?	No
<b>Residential status</b>	<b>Non-resident*</b>

\*Stateless rule does not apply since he is not a citizen of India.

**B23. MASTER QUESTION - HUF – CA2020(NOV)** - Determine residential status of Sundaram (HUF) which carries out its transactions in Malaysia. Its affairs are partly controlled from India. The Karta of HUF, Mr. Sundaram, who is from Chennai, visits India on 1.6.2022 and leaves for Malaysia on 10.2.2023. He has not visited India for the past 11 years.

Since affairs of HUF are partly controlled from India, it is a resident. Since Mr. Sundaram is NR in 9 out of 10 preceding PYs and he is in India for  $\leq 729$  days in the preceding 7 PYs, the HUF is RNOR.

**B24. HUF** - Gaurav HUF carries on trading business in Mexico. The business is transacted entirely from Mexico. Various policy decisions are also taken from Mexico. Gaurav is the Karta of HUF who was born in Mumbai. He comes to India after a gap of 15 years, during the PY 2022-23. He arrives in India on 1 April 2022 and leaves on 1 December 2022. Determine the residential status of HUF for AY 2023-24. Will your answer change if policy decisions are taken partly from India?

Since the control and management of the affairs of the HUF is situated wholly outside India, it is a non-resident for the assessment year 2023-24.

In the second scenario, if the control and management of the affairs of the HUF is situated partly in India, the HUF would become a resident. In order for the HUF to be a resident but not ordinarily resident, Gaurav needs to (a) be a non-resident in 9 out of 10 preceding previous years, or (b) be in India for 729 days or less during the preceding 7 previous years. Since he has come to India after 15 years, he satisfies both the conditions. Hence, the HUF would be a resident but not ordinarily resident (RNOR) for the assessment year 2023-24.

**B25-28. MASTER QUESTION - COMPANY** - Determine the residential status of JFK Ltd. in the following situations:

Particulars	Situation 1	Situation 2	Situation 3	Situation 4
Person	Indian company	Foreign company	Foreign company	Foreign company
POEM during the PY	Outside India	Outside India	In India	In India
TO/GR during the PY	100 crore	100 crore	50 crore	100 crore

1. Resident, as it is an Indian company.
2. Non-resident, as POEM is not in India.
3. Non-resident, as turnover or gross receipts is not  $> 50$  crore, though POEM is in India.
4. Resident, as POEM is in India and turnover or gross receipts is  $> 50$  crore.

**B29. COMPANY - CA2016(MAY)** - How is the residential status of a company determined? Refer para 22 of Concepts Book.

### SCOPE OF TOTAL INCOME

**B30-37. SCOPE OF TOTAL INCOME** - Determine whether the following incomes will be taxable in the hands of Somesh, assuming he is a ROR, RNOR or a NR.

#	Income
1	Interest received in the fixed deposit account maintained with Pune branch of ICICI Bank
2	Rent received in China from a house property situated in India
3	Salary received in India for services rendered in US
4	Income from sale of building situated in France and received in Canada
5	Income received in Thailand from a business carried on in Canada, controlled in India
6	Income received in Thailand from a business carried on in Canada, controlled in Thailand
7	Income received in USA from a profession carried on in USA, but set up in India
8	Income received in Sri Lanka from a profession carried on in India and set up in India

#	Category	ROR	RNOR	NR
1	Receipt – India; Accrual – India	Yes	Yes	Yes
2	Receipt – China; Accrual – India	Yes	Yes	Yes
3	Receipt – India; Accrual – US	Yes	Yes	Yes
4	Receipt – Canada; Accrual – France	Yes	No	No
5	Receipt – Thailand; Accrual – Canada; Control – India	Yes	Yes	No
6	Receipt – Thailand; Accrual – Canada; Control – Thailand	Yes	No	No
7	Receipt – USA; Accrual – USA; Setup – India	Yes	Yes	No
8	Receipt – Sri Lanka; Accrual – India; Setup – India	Yes	Yes	Yes

**B38-39. INCOME ACCRUING/ARISING IN INDIA** - Determine whether the following incomes will be taxable in the hands of Rashi, assuming she is a ROR, RNOR or a NR.

#	Income
1	Income received in UK from a business carried on in UK, controlled in UK, but included in group balance sheet prepared in India
2	Income arising from professional services rendered in UK and received in India. Profession is set-up in India.

#	Category	ROR	RNOR	NR
1	Accrual – UK; Receipt – UK; Control – UK	Yes	No	No
2	Accrual – UK; Receipt – India; Setup – India	Yes	Yes	Yes

**B40-43. BUSINESS CONNECTION – MASTER QUESTION** - Swamy is a non-resident based out of Brazil and a citizen of Mexico. In which of the following activities carried out in India, will the income be deemed to accrue or arise in India?

#	Situation
1	He purchases raw cloth from Indian suppliers and exports to Mexico for being processed in a factory situated in Mexico. It is then sold to the customers in Mexico.
2	He publishes a law journal in Brazil for which he collects news and views from various sources located in India
3	He visited India for 20 days during the year to shoot a cinematographic film in Jodhpur. He later sold the film to a film distributor in Brazil.
4	He is in the diamond business in connection with which he displayed uncut and unsorted diamonds in the special notified zone for 35 days.

#	Income deemed to accrue or arise in India?
1	No, as operations are confined to purchase of goods in India for the purpose of export
2	No, as activity is confined to the collection of news and views in India for transmission out of India
3	No, as operations are confined to the shooting of cinematograph film in India by an individual who is not a citizen of India
4	Yes, since he is not a foreign company

**B44. CA2021(DEC) – BUSINESS CONNECTION** – Examine the tax implications of the following transaction for the assessment year 2023-24 (Give brief reasons): Ms. Juhi, a non-resident in India is engaged in operations which are confined to purchase of goods in India for the purpose of export. She has earned Rs. 2,50,000 during the previous year 2022-23.

Income is not deemed to accrue/arise in India from operations confined to purchase of goods in India for the purpose of export. Hence, Rs. 2,50,000 is not taxable in India. *Mistake by students – Could not arrive at correct conclusion that such sum is not taxable in India.*

**B45. BUSINESS CONNECTION - CA2017(NOV)** - Daisy Ltd., a foreign company, incorporated in USA and engaged in manufacturing and distribution of diamonds, set up a branch office in India in June 2022. Branch office was required to purchase uncut and unsorted diamonds from dealers of Mumbai and export them to USA. During PY 2022-23, profits from such export was Rs. 75 lakh. Out of 20 shareholders of Daisy Ltd., 12 were non-resident in India. All major decisions were taken through Board meetings held in USA.

(i) Determine residential status of Daisy Ltd. for AY 2023-24.

(ii) Discuss tax treatment of profit from export business.

Since all major decisions were taken through Board meetings held in USA, POEM is outside India. Hence, Daisy Ltd. is a non-resident. Branch office constitutes business connection in India u/s 9(1)(i). Income from business connection is deemed to accrue or arise in India. However, export exclusion applies in this case as operations are confined to purchase of goods in India for the purpose of export. Hence, profits from export are not taxable in India.

**B46-49. PROPERTY/ASSET/SOURCE IN INDIA** - State whether the following items of income can be deemed to accrue or arise in India in the hands of Beck, a non-resident.

#	Particulars
1	Hire charges or rent paid outside India for the use of the machinery or buildings situated in India.
2	Deposits with an Indian company for which interest is received outside India
3	Rental income from a property situated in India
4	Interest from deposits held in Indian bank accounts

■ Answer: Yes u/s 9(1)(i), since property, asset or source of income is in India

**B50. PROPERTY/ASSET/SOURCE IN INDIA - CA2016(NOV)** – Mr. Federer, a non resident residing in Sweden, has received rent from Mr. Nadal, also a non resident residing in France, in respect of a property taken on lease at Mumbai. Since this income is received outside India from a non resident, Mr. Federer claims that his income is not chargeable to tax in India. Is he correct?

■ Answer: No, since income from any property, asset or source of income in India is deemed to accrue or arise in India u/s 9(1)(i). Hence, it is taxable in India.

**B51-54. PROPERTY/ASSET/SOURCE IN INDIA** - Determine whether the following are taxable in the hands of Sonu, if he is a ROR, RNOR or NR for AY 2023-24.

#	Particulars
1	Winning from lottery run by Brazilian Government, received in Mexico and remitted to India
2	Interest on FD made in branch of State Bank of Colombo in Sri Lanka
3	Loan taken from bank in Mexico credited in the bank account in Mexico
4	Interest in money lending business carried out in UK, received in UK, where business is controlled from India

#	ROR	RNOR	NR	Comment
1	Yes	No	No	Income accrues/arises and is received outside India. Subsequent remittance is not relevant. However, global income is taxable for ROR.
2	Yes	No	No	Income accrues/arises outside India and is received outside India. However, global income is taxable for ROR.
3	No	No	No	Loan is not in the nature of income.
4	Yes	Yes	No	Income accrues/arises and is received outside India, but business is controlled in India. Taxable for ROR and RNOR.

**B55-57. CAPITAL ASSET IN INDIA** - Determine whether the following are taxable in the hands of Johnny, if he is a ROR, RNOR or NR.

#	Particulars
1	Johnny owns a residential house property in India. He transfers the property to Bony, a non-resident, and receives the sale consideration outside India.
2	Johnny is a real estate dealer. He sells a flat, forming part of his stock-in-trade, located in France, to Bony who lives in UK. Johnny's business is controlled from India.
3	Johnny buys gold bars in India and then takes them to US where he sells these to Bony, a non-resident. Sale proceeds are credited to his bank account in the US.

#	ROR	RNOR	NR	Comment
1	Yes	Yes	Yes	Capital asset is situate in India. Income deemed to accrue/arise in India u/s 9(1)(i).
2	Yes	Yes	No	Flat is not a capital asset as it is stock-in-trade. Hence, income is business income, not capital gain. Business income accrues/arises outside India but business is controlled in India. Hence, taxable for ROR and RNOR.
3	Yes	No	No	It is transfer of capital asset situated outside India at the time of transfer. Receipt is outside India. Not deemed to accrue/arise in India. Thus, taxable only for ROR as global income.

**B58-63. SALARY** - Determine whether the following incomes will be taxable in the hands of Mustafa, a non-resident, assuming he is a (a) citizen of India or (b) citizen of US.

#	Income
1	Salary received in India from ABC Pvt. Ltd. for services rendered in India
2	Salary received in US from ABC Pvt. Ltd. for services rendered in India
3	Salary received in US from ABC Pvt. Ltd. for services rendered in US
4	Salary received in India from Government of India for services rendered in US while working in Indian embassy
5	Salary received in US from Government of India for services rendered in US while working in Indian embassy
6	Pension received in US from ABC Pvt. Ltd. for services rendered in India

#	Citizen of India	Citizen of US	Comment
1	Yes	Yes	Receipt in India. Also, income deemed to accrue/arise in India u/s 9(1)(ii) as services rendered in India.



2	Yes	Yes	Income deemed to accrue/arise in India u/s 9(1)(ii) as services rendered in India.
3	No	No	Receipt outside India. Also, income not deemed to accrue/arise in India u/s 9(1)(ii) as services rendered outside India.
4	Yes	Yes	Receipt in India. Also, income deemed to accrue/arise in India u/s 9(1)(iii) for citizen of India as it is payable by Government.
5	Yes*	No	Income deemed to accrue/arise in India u/s 9(1)(iii) for citizen of India as it is payable by Government.
6	Yes	Yes	Income deemed to accrue/arise in India u/s 9(1)(ii) as services rendered in India.

\*Allowance or perquisites will be exempt u/s 10(7).

**B64. CA2021(DEC) – SALARY** – Examine the tax implications of the following transaction for the assessment year 2023-24 (Give brief reason): Government of India has appointed Mr. Rahul as an ambassador in Japan. He received salary of Rs. 7,50,000 and allowances of Rs. 2,40,000 during the previous year 2022-23 for rendering his services in Japan. He is an Indian citizen having status of non-resident in India for the previous year 2022-23.

Salary of Rs. 7,50,000 is deemed to accrue/arise in India u/s 9(1)(iii) and is taxable in India as it is payable by Government to a citizen of India for services rendered outside India. However, allowances of Rs. 2,40,000 will be exempt u/s 10(7). *Mistake by students – Not aware of exemption u/s 10(7).*

**B65. SALARY** - Simran, a citizen of India and a Chartered Accountant, is presently working in a firm in India. She has received an offer for the post of CFO from a company at New York. As per the offer letter, she should join the company at any time between 1 Sep 2022 and 31 Oct 2022. Advise her on the following:

- Date by which she should leave India to join the company.
- Direct credit of part of her salary to her bank account in Delhi maintained jointly with her mother to meet family requirements.
- Period for which she should stay in India when she comes on leave.

- Employment rule will apply. Stay in India for  $\geq 182$  stay is required to become resident. Should leave latest by 28 Sep 2022 to make her non-resident for PY 2022-23. In such case, income in the form of salary received outside India for services rendered outside India will not be taxable.
- Direct credit should be avoided as it will get taxed on receipt basis. Salary should be received abroad and then remitted.
- Stay in India of  $\geq 182$  stay is required to become a resident. She should ensure her overall stay during PY 2022-23 is within this limit. Moreover, she should not visit again during current PY.

**B66-68. DIVIDEND** - Determine whether the following dividend will be taxable in the hands of Zen, a non-resident.

#	Dividend from Reliance Ltd., an Indian company, received in India
1	Dividend from Reliance Ltd., an Indian company, received in China
2	Dividend from ByteDance Ltd., a Chinese company, received in China
3	Dividend from ByteDance Ltd., a Chinese company, received in India

#	Taxable?
1	Yes, as deemed to accrue/arise in India u/s 9(1)(iv) since paid by an Indian company outside India
2	No, as received outside India and not deemed to accrue/arise in India u/s 9(1)(iv)
3	Yes, as received in India, though not deemed to accrue/arise in India u/s 9(1)(iv)

**B69-72. INTEREST** - Determine whether following interest incomes will be taxable in the hands of Johnny, if he is a ROR, RNOR or NR.

#	Particulars
1	Interest of Rs. 1 lakh is received from the Government of India which is used in a project being executed in Japan in collaboration with the Japanese Government.
2	Interest of Rs. 2 lakh is received from Bony, a resident, in respect of loan given, which Bony uses to purchase plant and machinery for his business in India. Loan agreement is executed in USA.
3	Interest of Rs. 3 lakh is received from Mony, a non-resident, in respect of loan given, which Mony uses to set up a new office for his profession in Australia.
4	Interest of Rs. 4 lakh is received (in USD) from Mony, a non-resident, in respect of loan given, which Mony uses to invest in shares of an Indian company.

#	ROR	RNOR	NR	Comments
1	Yes	Yes	Yes	Deemed to accrue/arise in India u/s 9(1)(v) as payable by Government
2	Yes	Yes	Yes	Deemed to accrue/arise in India u/s 9(1)(v) as payable by resident and loan is not used for business or profession carried on by the payer outside India or for earning any income from any source outside India.
3	Yes	No	No	Not deemed to accrue/arise in India u/s 9(1)(v) as payable by non-resident and loan is not used for the purpose of business or profession carried on by payer in India. However, taxable for ROR on global basis.
4	Yes	No	No	Not deemed to accrue/arise in India u/s 9(1)(v) as payable by non-resident and loan is not used for purpose of business or profession carried on by payer in India. However, taxable for ROR on global basis.

**B73. CA2021(DEC) – INTEREST** – Examine the tax implications of the following transaction for the assessment year 2023-24 (Give brief reasons): Mr. James, a NRI, borrowed Rs. 10,00,000 on 01.04.2022 from Mr. Akash who is also a non-resident and invested such money in the shares of an Indian Company. Mr. Akash has received interest @ 12% per annum.

Interest payable by a non-resident is deemed to accrue/arise in India u/s 9(1)(v) only when it is payable in respect of any debt incurred, or moneys borrowed and used, for the purpose of a business or profession carried on by the payer in India. Since Mr. James is a non-resident (he is a NRI as well as a non-resident) and he invested such money in the shares of an Indian company, this condition is not satisfied. Hence, interest of Rs. 1,20,000 is not deemed to accrue/arise in India in the hands of Mr. Akash. Assuming it is also not received in India, it is not taxable in India. *Mistake by students – Could not correctly conclude that interest payable by NR on money borrowed which is used for any purpose other than business or profession in India would not be taxable in India.*

**B74-81. ROYALTY/FTS** - Determine if the following are in the nature of royalty or FTS.

#	Particulars
1	Royalty for use of copyright held by the author
2	Imparting of technical knowledge to use a machine installed in the factory
3	Payment for use of a surgical robotic equipment belonging to another person
4	Outright sale of a patent
5	License to download and use data analytics software
6	Management of a complex project
7	Buying a manual of how to use engineering techniques to work a machine
8	Installation of equipment by an engineer

#	Royalty/FTS	Comments
1	Royalty	Transfer of all or any rights in respect of IPRs (including grant of a license)
2	Royalty	Imparting of any information concerning IPR or know-how
3	Royalty	Use or right to use certain equipment
4	Not royalty	Royalty excludes consideration taxable as Capital Gains
5	Royalty	Consideration for use or right to use computer software (including granting of license)
6	FTS	It is managerial services.
7	Not FTS	It is purchase of a product rather than a service.
8	FTS	It is technical services.

**B82-84. ROYALTY/FTS** - Determine whether the following royalty and FTS incomes will be taxable in the hands of Mr. Joe, a citizen of Hong Kong, if he is a ROR, RNOR or NR.

#	Particulars
1	Mr. Joe provides mechanical engineering services to the branch in Greece of JK Ltd., an Indian company. JK Ltd. makes payment of FTS to Mr. Joe which is received in Greece. Service contract is entered into in India.
2	Mr. Joe provides software development services to US Co, a US company. US Co utilizes the services at its branch office in India. Services are rendered in US and payment is made in USD.
3	Mr. Joe divulges a secret formula to C Co, a Japanese company, which uses it in manufacture of beverages in its factory set up in China. C Co pays royalty to Mr. Joe which is received in Japan.

#	ROR	RNOR	NR	Comment
1	Yes	No	No	Service used by resident payer for business carried on by payer outside India. Not deemed to accrue/arise in India u/s 9(1)(vii). Also, receipt outside India. However, global income taxable for ROR.
2	Yes	Yes	Yes	Services used by non resident payer for business carried on by payer in India. Deemed to accrue/arise in India u/s 9(1)(vii).

3	Yes	No	No	Information used by non resident payer for business carried outside India. Not deemed to accrue/arise in India u/s 9(1)(vi). Also, receipt outside India. However, global income taxable for ROR.
---	-----	----	----	---

**B85. CA2021(DEC) – ROYALTY** – *Examine the tax implications of the following transaction for the assessment year 2023-24 (Give brief reasons): Mr. Naveen, a non-resident in India, has earned Rs. 3,00,000 as royalty for a patent right made available to Mr. Rakesh who is also a non-resident. Mr. Rakesh has utilized patent rights for development of a product in India and 50% royalty is received in India and 50% outside India.*

Since Mr. Rajesh is a non-resident who has utilized the patent rights for the purpose of business carried on by him in India or for the purposes of making or earning any income from any source in India, entire royalty of 3,00,000 is deemed to accrue/arise in India u/s 9(1)(vi) and, thus, taxable in the hands of Mr. Naveen, even though 50% is received outside India.

**B86. CA2021(JAN) – ROYALTY** - *Discuss the taxability of the following transaction giving reasons, in light of relevant provisions, for your conclusion: Pratham, a non-resident in India, received a sum of Rs. 1,14,000 from Rakesh, a resident and ordinarily resident in India. The amount was paid to Pratham on account of transfer of right to use the manufacturing process developed by Pratham. The manufacturing process was developed by Pratham in Singapore and Rakesh used such process for his business carried on by him in Dubai.*

Consideration for transfer of right to use the manufacturing process is royalty u/s 9(1)(vi). It is not taxable for Pratham as it is not deemed to accrue or arise in India since it is payable by a resident in respect of right used for the purpose of business carried on by the payer outside India. It is assumed that the sum was not received in India.

**B87. CA2015(NOV) – ROYALTY** - *Soham, an Indian citizen, left India on 20 April 2020 for the first time to set up a software firm in Singapore. On 10 April 2022, he entered into an agreement with LK Ltd., an Indian company, for transfer of right to use technical documents and designs to setup an automobile factory in Faridabad. He reached India along with his team to render the requisite services on 15 May 2022 and was able to complete his assignment on 20 August 2022. He left for Singapore on 21 August 2022. He charged Rs. 50 lakh for the assignment. Determine the residential status of Soham for AY 2023-24 and examine whether fee charged from LK Ltd. would be chargeable to tax in his hands.*

Section 9(1)(vi) defines 'royalty' to mean consideration for transfer of all or any rights in respect of a design and also for the rendering of services in connection with such activity. Transfer of rights also includes transfer of right for use or right to use a computer software. Therefore, fees received by Soham is in the nature of 'royalty'. Since royalty is paid by LK Ltd, which is a resident, royalty would be deemed to accrue or arise in India, as the rights are used for the purposes of its business carried on in India. Thus, royalty would be taxable in India.

Soham is an Indian citizen who comes on a visit to India in the PY and his total income from Indian sources (royalty) is > 15 lakh. Visit & Income rule applies. He is not a resident as he is in India for less than 120 days. Stateless rule also does not apply in absence of satisfaction of its conditions. Hence, he is a non-resident.

**B88. CA2011(MAY) – FTS** - *Vivitha paid a sum of 5,000 USD to Kulasekhara, a management consultant practicing in Colombo, specializing in project financing. Payment was made in Colombo. Kulasekhara is a non-resident. Consultancy is related to a project in India with possible Sri Lankan collaboration. Services are used in India. Is this payment chargeable to tax in India in the hands of Kulasekhara?*

Payment to a management consultant relating to project financing is in the nature of consultancy services. Hence, it is fees for technical services (FTS). The residential status of Vivitha is not stated. However, since the payment is for services utilized in the business carried on in India, FTS shall be deemed to accrue or arise in India u/s 9(1)(vii) and, hence, taxable in India in the hands of Kulasekhara. This will be the position whether or not services are rendered in India or whether or not Kulasekhara has a residence or place of business or business connection in India.

**B89-92. CA2017(MAY) – ROYALTY/FTS** - *A Korean company, Damjung Ltd., entered into the following transactions during FY 2022-23. Explain briefly, whether the receipts will be taxable in India.*

#	Particulars
1	Rs. 20 lakh from a non-resident for use of patent for a business in India
2	Rs. 15 lakh from a NRI for use of know-how for a business in Sri Lanka and this amount was received in Japan
3	Rs. 7 lakh from CC Ltd., an Indian company for providing technical know-how in India
4	Rs. 5 lakh from B & Co., Mumbai, for conducting feasibility study for a new project in Nepal. Payment was made in Nepal.

#	Taxability
1	Royalty is taxable since patent is used for purpose of business carried on by payer in India. It is deemed to accrue/arise in India u/s 9(1)(vi).
2	Royalty is not taxable as know-how is used for purpose of business carried on by payer outside India, whether NRI is resident or NR. It is not deemed to accrue/arise in India u/s 9(1)(vi). Also, it is received outside India.
3	Royalty is taxable since know-how is used for purpose of business carried on by payer in India. It is deemed to accrue/arise in India u/s 9(1)(vi).
4	FTS is not taxable as services are used for purpose of business carried on by payer outside India. It is not deemed to accrue/arise in India u/s 9(1)(vi). Also, it is received outside India.

**B93. CA2021(JAN) – INTEREST/ROYALTY/FTS** - Income deemed to accrue or arise in India to a non-resident by way of interest, royalty and fee for technical services is to be taxed in India irrespective of territorial nexus. Examine the correctness or otherwise of the given statement.

Interest, royalty or FTS is included in the total income of a non-resident, whether or not,—

- the non-resident has a residence or place of business or business connection in India; or
- the non-resident has rendered services in India.

Thus, only status of payer and utilization is relevant for the source rule. Territorial nexus of NR is not relevant.

### COMPREHENSIVE QUESTIONS

**B94.** Compute the gross total income in the hands of Vatsal, aged 45 years, if he is a ROR, RNOR or NR for AY 2023-24.

#	Particulars	Rs.
1	Interest on Hong Kong Development Bonds (40% of interest is received in India)	20,000
2	Income from a business carried on in Ahmedabad (30% income is received in India)	30,000
3	Long term capital gain on sale of shares of Tata Ltd., an Indian company. Income was received in Hong Kong	10,000
4	Dividend from a UK based company. It was credited in bank account maintained in London.	15,000
5	Short term capital gain on sale of building in Sri Lanka (70% of profits were received in India)	50,000
6	Income earned from business in Denmark. Business was controlled from Jaipur (Rs. 60,000 were received in India)	90,000
7	Profits from a business carried on in Jodhpur. It was wholly managed from Jakarta.	25,000
8	Income from house property situated in Canberra (computed). Income was deposited in a bank at Canberra and then remitted to India.	70,000
9	Interest on debentures in BCD Ltd., an Indian company. Interest was credited in bank account held in Poland.	22,000
10	Fees received in London for technical services rendered in India to the Government of India	17,000
11	Profits earned from a business carried on in Bangalore. Business was managed from Hong Kong.	35,000
12	Income from a house situated in Beijing. Income was received in Beijing (computed)	25,000
13	Past foreign untaxed income brought to India during the PY 2022-23	10,000
14	Income from agricultural land situated in Bhutan. Income was received in Bhutan and then remitted to India through authorized banking channel.	36,000
15	Income from a profession carried on in South Africa. The profession was setup in India. Income was received in South Africa but later spent in India.	45,000
16	Interest on savings bank deposit in Coimbatore branch of SBI	34,000
17	Income from a business carried on in Moscow and received there. The business was controlled from London.	20,000
18	Dividend from Reliance Petro Ltd., an Indian company, received in bank account held in London.	16,000
19	Agricultural income from a land situated in Rajasthan, received in Jaipur	15,000

### Computation of gross total income

#	Remarks	ROR	RNOR	NR
1	Global income taxable for ROR. Taxable on receipt basis for RNOR/NR.	20,000	8,000	8,000
2	Income accrued in India.	30,000	30,000	30,000
3	Capital asset situate in India. Income deemed to accrue/arise in India.	10,000	10,000	10,000
4	Income accrued/received outside India. Global income taxable for ROR.	15,000	-	-
5	Global income taxable for ROR. Taxable on receipt basis for RNOR/NR.	50,000	35,000	35,000
6	Global income taxable for ROR. Taxable for RNOR as business controlled in India. Taxable for NR on receipt basis.	90,000	90,000	60,000

7	Income accrued in India.	25,000	25,000	25,000
8	Global income taxable for ROR. Remittance, subsequent to receipt outside India, not relevant.	70,000	-	-
9	Income accrues/arises in India.	22,000	22,000	22,000
10	Payer of FTS is Government. Deemed to accrue/arise in India.	17,000	17,000	17,000
11	Income accrued in India.	35,000	35,000	35,000
12	Global income taxable for ROR. Accrual/receipt outside India.	25,000	-	-
13	Subsequent remittance not relevant.	-	-	-
14	Global income taxable for ROR. Accrual/receipt outside India. Subsequent remittance not relevant.	36,000	-	-
15	Global income taxable for ROR. Taxable for RNOR as profession set up in India. Receipt outside India.	45,000	45,000	-
16	Income accrued in India.	34,000	34,000	34,000
17	Global income taxable for ROR. Accrual/receipt outside India.	20,000	-	-
18	Dividend from Indian company. Deemed to accrue/arise in India.	16,000	16,000	16,000
19	Accrual/receipt in India. But income is exempt [para 28 of Concepts Book].	-	-	-
	<b>Gross total income</b>	<b>5,60,000</b>	<b>3,67,000</b>	<b>2,92,000</b>

**B95. CA2021(JUL)** – Mr. Pratap earned following incomes during the FY 2022-23. He settled in Singapore in the year 1998.

1. Interest on Singapore Development Bonds (only 50% of interest received in India): Rs. 35,000.
2. Dividend from German company received in Germany: Rs. 28,000.
3. Profits from a business in Kanpur, which is managed directly from Singapore: Rs. 1,00,000.
4. Short term capital gain on sale of shares of an Indian company received in India: Rs. 60,000.
5. Income from business in Mumbai: Rs. 80,000.
6. Fees for technical services rendered in India, but received in Singapore: Rs. 1,00,000.
7. Agricultural income from land situated in Punjab: Rs. 55,000.
8. Rent received from house property at Lucknow: Rs. 1,00,000.

Compute his total income for AY 2023-24.

■ Since Mr. Pratap settled in Singapore in the year 1997 and no further information is given regarding his stay in India during the PY, it is assumed that he is a non-resident.

*Computation of total income of Mr. Pratap for AY 2023-24*

#	Particulars	Rs.	Comment
1	Interest....	17,500	Taxable to the extent received in India. Balance not taxable as it accrues/arises and is received outside India.
2	Dividend....	-	Not taxable as it accrues/arises and is received outside India.
3	Profits from....	1,00,000	Taxable as accrues/arises in India.
4	Short term capital gain....	60,000	Taxable as deemed to accrue/arise in India since capital asset is situated in India (being shares of an Indian company) and further it is received in India
5	Income from business....	80,000	Taxable as accrues/arises in India.
6	Fees for technical services.....	1,00,000	Taxable as deemed to accrue/arise in India assuming services are used for purpose of business or profession carried on by payer in India or for purpose of making or earning any income from any source in India.
7	Agricultural income.....	-	Exempt u/s 10(1) [para 28 of Concepts Book].
8	Rent received.....	70,000	Deemed to accrue/arise in India as property situated in India. Amount is taxable after providing standard deduction of 30% u/s 24(a) (para 80.5 of Concepts Book)
	<b>Total income</b>	<b>4,27,500</b>	

**B96-99. CA2021(JAN)** - Discuss the taxability of the following items in the hands of different persons briefly explaining the applicable provisions of the Income Tax Act.

1. Mr. Jayesh, a non resident, is having a plot of land in Jodhpur. He sells this plot to another non resident outside India. The consideration is received outside India in foreign currency.

2. Mr. Arpit is having a house property in India. The property is let out by him to a foreign company. The rent agreement is entered outside India. Monthly rent is also received outside India.
3. Government of Rajasthan has borrowed money from ABC Express Bank, a foreign bank. The interest payable to ABC Express Bank is remitted outside India.
4. Mr. Bhavesh, a citizen of India, is appointed by Reliable Industries Ltd. in their Dubai branch. Mr. Bhavesh is a non resident and receives salary outside India.

- 
1. Taxable in India as income from transfer of capital asset situate in India is deemed to accrue or arise in India u/s 9(1)(i).
  2. Taxable in India as income from property in India is deemed to accrue or arise in India u/s 9(1)(i). This will be the case whether Mr. Arpit is a non-resident or resident.
  3. Taxable in India as income from interest payable by Government is deemed to accrue or arise in India u/s 9(1)(v).
  4. Not taxable in India as Mr. Bhavesh is a non-resident and salary is received outside India. It is also not deemed to accrue or arise in India u/s 9(1)(ii) as services are rendered outside India.

**B100. CA2021(DEC)** – Mr. Dhruv, an Indian citizen aged 32 years, a Central Government officer serving in the Ministry of Corporate Affairs, left India for the first time on 31.03.2022 due to transfer to High Commission of UK. He did not visit India any time during the previous year 2022-23. He has received the following income for the previous year 2022-23:

1. Salaries received for services rendered in London (computed): Rs. 20,00,000
2. Foreign Allowances: Rs. 10,00,000
3. Interest on saving bank deposit in State Bank of India: Rs. 1,00,000
4. Short term capital gains on sale of shares of an Indian company received in London: Rs. 2,00,000
5. Dividend from PP Ltd., an Indian company paid in London: Rs. 50,000
6. Rent from property in London deposited in a bank in London, later on remitted to India through approved banking channels: Rs. 1,80,000

Compute the Total Income of Mr. Dhruv for the Assessment Year 2023-24.

- Since Mr. Dhruv was not present in India at any time during the PY 2022-23, he is a non-resident.

*Computation of Total Income of Mr. Dhruv for the Assessment Year 2023-24*

Particulars	Rs.	Comment
Salaries received for services.....	20,00,000	Deemed to accrue/arise in India as payable by Government to COI for services rendered outside India
Foreign Allowances	-	Exempt u/s 10(7)
Interest on saving bank deposit.....	1,00,000	Deemed to accrue/arise in India as source of income is in India
Short term capital gains.....	2,00,000	Deemed to accrue/arise in India as capital asset is situated in India
Dividend from PP Ltd.....	50,000	Deemed to accrue/arise in India as paid by Indian company
Rent from property in London.....	-	Accrued/received outside India. Subsequent remittance not relevant.
	23,50,000	
Less: Deduction u/s 80TTA (see para 203 of Concepts Book)	(10,000)	
	<b>23,40,000</b>	

**B101. CA2013(MAY) (modified)** – Devesh and Siddhant are brothers and they earned the following incomes during FY 2022-23. Devesh settled in America in the year 1989 and Siddhant settled in Mumbai. Devesh visits India for 20 days every year. Siddhant also visits America every year for a month. Compute their gross total income for AY 2023-24 from the following information:

#	Particulars	Devesh	Siddhant
1	Interest on American Development Bonds, 50% of interest received in India	46,000	18,000
2	Dividend from a Japanese company received in America	10,000	15,000
3	Profit on sale of shares of an Indian company received in India	45,000	75,000
4	Profit from a business in Mumbai but managed directly from America	10,000	-
5	Income from a business in Mumbai	32,000	28,000
6	Fees for technical services rendered in America and received in America. The services were, however, utilized in India	1,50,000	-
7	Interest on savings bank deposit in State Bank of India, Mumbai	4,500	12,000

8	Rent received in respect of house property at Mumbai	96,000	55,000
---	--	--------	--------

■ Since Devesh is for < 60 days in India during PY 2022-23 and for < 365 days in preceding 4 PYs, he is a NR (stateless rule will not apply). Since Siddhant is in India for 11 months every year, he is a ROR.

*Computation of gross total income of Devesh and Siddhant for AY 2023-24*

#	Particulars	Devesh	Siddhant	Comment
1	Interest on American.....	23,000	18,000	Taxable for Devesh on receipt basis. Global income taxable for Siddhant.
2	Dividend from a Japanese.....	-	15,000	Not taxable for Devesh since accrual/receipt is outside India. Global income taxable for Siddhant.
3	Profit on sale of shares.....	45,000	75,000	Deemed to accrue/arise in India (capital asset is situate in India) and received in India
4	Profit from a business.....	10,000	-	Accrues/arises in India since business in India
5	Income from a business....	32,000	28,000	Accrues/arises in India since business in India
6	Fees for technical services.....	1,50,000	-	Deemed to accrue/arise in India since services utilized in India
7	Interest on savings bank.....	4,500	12,000	Accrues/arises in India
8	Rent received.....	67,200	38,500	Accrues/arises in India. Income from house property will be computed after providing 30% standard deduction u/s 24(a) (para 80.5 of Concepts Book)
<b>Gross total income</b>		<b>3,31,700</b>	<b>1,86,500</b>	

**B102. CA2019(MAY)** – Mr. Bachhan has provided the following details of his income for the year ended 31.3.2023.

Particulars	Rs.
Short term capital gains on sale of shares in Indian company received in Japan	85,000
Dividend from a Chinese company received in China	30,000
Rent from property in Bangladesh deposited in a bank at Dhaka, later on remitted to India through approved banking channels	96,000
Dividend from ABC Ltd., an Indian company	22,000

Compute his total income for AY 2023-24 in case he is ROR, RNOR or NR.

■

*Computation of total income of Mr. Bachhan for AY 2023-24*

Particulars	ROR	RNOR	NR	Comments
Short term capital gains.....	85,000	85,000	85,000	Deemed to accrue/arise in India as capital asset situated in India
Dividend from a Chinese.....	30,000	-	-	Accrues/arises outside India. Taxable on global basis for ROR
Rent from property in Bangladesh.....	67,200	-	-	Accrued/received outside India. Subsequent remittance not relevant. Taxable on global basis for ROR. Income under head IHP needs to be computed after giving standard deduction of 30% u/s 24(a) (para 80.5 of Concepts Book)
Dividend from ABC Ltd.....	22,000	22,000	22,000	Deemed to accrue/arise in India as dividend paid by Indian company.
<b>Total income</b>	<b>2,04,200</b>	<b>1,07,000</b>	<b>1,07,000</b>	

**B103. CA2020(NOV)** - Mr. Vinod, aged 45 years, earned the following incomes during the year ended on 31.3.2023. Compute his total income if he is (i) ROR, (ii) RNOR.

#	Particulars	Rs.
1	Agricultural income from Sri Lanka	25,000
2	Long term capital gain on sale of property in Mumbai but received in Burma	30,000
3	Profit from business in Dubai controlled from India	2,50,000

4	Rent from house property in Thailand received in India	1,00,000
5	Interest on Savings account from bank in India	8,000
6	Past untaxed foreign income brought into India during the year	1,00,000

■  
Computation of total income of Mr. Vinod for AY 2023-24

#	Particulars	ROR	RNOR	Comment
1	Agricultural income.....	25,000	-	Taxable only for ROR since accrues/arises outside India and assumed it is not received in India and that activity is not controlled in India. Also, not exempt u/s 10(1) since land situated outside India (para 28 of Concepts Book).
2	Long term capital gain.....	30,000	30,000	Capital asset is situated in India; income deemed to accrue/arise in India. Taxable in India.
3	Profit from business.....	2,50,000	2,50,000	Accrues/arises outside India and is derived from business controlled from India. Taxable in India.
4	Rent from house....	70,000	70,000	Received in India. Taxable in India. Income from house property will be computed after giving standard deduction of 30% u/s 24(a) (para 80.5 of Concepts Book)
5	Interest on Savings.....	8,000	8,000	Bank account in India; income accrues/arises in India; taxable in India.
6	Past untaxed foreign.....	-	-	Remittance of past untaxed foreign income not taxable.
	Gross total income	3,83,000	3,58,000	
	Less: Deduction u/s 80TTA	(8,000)	(8,000)	Deduction is allowable u/s 80TTA on account of saving bank interest (para 203 of Concepts Book)
	<b>Total income</b>	<b>3,75,000</b>	<b>3,50,000</b>	

**B104-107. CA2015(MAY)** - Explain with reasons whether the following transactions attract tax in India in the hands of the recipients.

#	Transaction
1	Salary paid to David, a citizen of India, of Rs. 15 lakh, by the Central Government for services rendered in Canada
2	Legal charges of Rs. 7.5 lakh paid to Johnson, a lawyer of London, who visited India to represent a case in the Supreme Court.
3	Royalty paid to Rajeev, a non resident, by Mukesh, a resident, for a business carried on in Sri Lanka
4	Interest received of Rs. 1 lakh, on money borrowed in France, by Dyana, a non resident, for the business at Bangalore.

#	Taxable?	Reason
1	Yes	Salary payable by Government to citizen of India for services rendered outside India is deemed to accrue or arise in India u/s 9(1)(iii).
2	Yes	It accrues or arises in India and also assuming it is received in India
3	No	Royalty payable by a resident is not deemed to accrue or arise in India u/s 9(1)(vi) where used for purposes of business carried on by resident outside India. It is assumed that royalty is not received in India.
4	Yes	Interest payable by NR is deemed to accrue or arise in India u/s 9(1)(v) if used for purposes of business carried on in India.

**B108. CA2019(MAY)** - Following are the incomes of Subhash, a citizen of India for PY 2022-23. Compute his GTI if he is ROR or RNOR.

Particulars
Income from business in India of Rs. 2 lakh. Business is controlled from London and Rs. 60,000 were remitted to London.
Profits from business earned in Japan of Rs. 70,000 of which Rs. 20,000 were received in India. Business is controlled from India.
Untaxed income of Rs. 1.3 lakh for the year 2021-22 of a business in England which was brought in India on 3 March 2022.
Royalty of Rs. 4 lakh received from Ramesh, a resident, for technical service provided to run a business outside India.
Agricultural income of Rs. 90,000 in Bhutan.
Income of Rs. 73,000 from house property in Dubai, which was deposited in bank at Dubai.



## Computation of gross total income of Subhash for AY 2023-24

Particulars	ROR	RNOR	Comments
Income from business in India....	2,00,000	2,00,000	Income accrues or arises from a business in India. Control of business from London not relevant
Profits from business earned in Japan.....	70,000	70,000	Global income taxable for ROR. Income accruing or arising outside India from business controlled in India, taxable for RNOR.
Untaxed income.....	-	-	Income does not pertain to PY 2022-23
Royalty of Rs. 4 lakh.....	4,00,000	-	Global income taxable for ROR. Not deemed to accrue or arise in India u/s 9(1)(vii) as such income is paid by resident for technical services used for purpose of business carried out by the payer outside India. Also, not received in India (assumed) or accrued in India (assumed that services rendered outside India). Hence, not taxable for RNOR.
Agricultural income.....	90,000	-	Taxable only for ROR since accrues outside India. Also, not exempt u/s 10(1) (para 28 of Concepts Book)
Income of Rs. 73,000.....	51,100	-	Since income accrues/arises outside India and is also received outside India, only taxable for ROR. Since 73,000 is deposited, it is assumed to be rent received. Hence, IHP is computed after giving standard deduction of 30% u/s 24(a) (para 80.5 of Concepts Book). Alternatively, words in question 'Income from house property' can also be taken to be computed amount under the head IHP in which case entire 73,000 can also be stated to be taxable.
<b>GTI</b>	<b>8,11,100</b>	<b>2,70,000</b>	

**B109-111. CA2018(NOV)** - Following incomes are derived by Krishna Kumar during the year ended 31 March 2023. Discuss taxability where he is resident or non-resident.

#	Income	Amount
1	Pension received from US Government	3,20,000
2	Agricultural income from lands in Malaysia	2,70,000
3	Rent received from let out property in Colombo	4,20,000

#	Resident	Non-resident
1	Taxable for ROR, since global income is taxable. Not taxable for RNOR assuming it is received outside India and is for services rendered outside India.	Not taxable, since accrues or arises outside India, assuming it is received outside India and is for services rendered outside India.
2	Taxable for ROR, since global income is taxable. Not taxable for RNOR as it accrues or arises outside India and assuming it is received outside India. Further, it is not exempt u/s 10(1) as land is outside India (para 28 of Concepts Book).	Not taxable, since accrues or arises outside India, assuming it is received outside India.
3	Taxable for ROR, since global income is taxable. Standard deduction of 30% will be allowed u/s 24(a) (para 80.5 of Concepts Book). Not taxable for RNOR as it accrues or arises outside India and assuming it is received outside India.	Not taxable, since accrues or arises outside India, assuming it is received outside India.

**Mistake by students** – Many examinees could not substantiate their answers with proper reasoning.

**B112.** Rupali, aged 60 years, is a citizen of Canada. She is employed with XYZ Ltd. in Mumbai since 2006. During the PY 2022-23 she undertook official travel to UK from 15.4.2022 to 10.10.2022 (days of departure and arrival) and to Singapore from 15.1.2023 to 5.4.2023 (days of departure and arrival). Her stay in India during PY 2018-19 to PY 2021-22 was 375 days. Her stay in India during the preceding 7 PYs was 720 days. During the FY 2022-23, she earned interest on deposits with Mumbai branch of Bank of India of Rs. 20,000, dividend of Rs. 30,000 from a listed company in France transferred to her bank account in France and salary of Rs. 4,80,000 from XYZ Ltd. (computed) credited to her account in Bank of India. Compute her gross total income for AY 2023-24.

■ During the PY 2022-23, stay in India is 111 days (365 – 178 – 76). She is present in India for ≥ 60 days in PY 2022-23 and for ≥ 365 days in preceding 4 PYs. Hence, she is a resident. Since her stay in India is ≤ 729 days in preceding 7 PYs, she is a RNOR.

## Computation of gross total income of Rupali for AY 2023-24

Particulars	Rs.	ROR
Salary from XYZ Ltd. (computed)	4,80,000	Received in India

Interest on deposits with Mumbai branch of Bank of India	20,000	Accrued and received in India
Dividend from French company received in France	-	Accrued and received outside India
Gross total income	5,00,000	

**B113.** Sukhpreet, a citizen of India of age 46 years, was employed with ABC Ltd. in Delhi. He got a job offer from BCD Inc of USA consequent to which he left India for the first time on 31.7.2021 and joined BCD Inc on 5.8.2021. During the PY 2022-23, Sukhpreet visited India from 25.5.2022 to 22.9.2022. He had the following particulars of income for the PY 2022-23:

- Salary from BCD Inc, received in USA: Rs. 7,00,000
- Dividend from PQR Ltd., an Indian company: 5,50,000
- Agricultural income from land situated in Bihar: 55,000
- Rent from letting out a house property in Patiala: 4,00,000
- Profits from a profession carried out in USA, which was set up in India, received in USA: Rs. 6,00,000

Determine the residential status of Sukhpreet and compute his total income for the AY 2023-24.

■ Income from foreign sources = Income which accrues or arises outside India (except income derived from a business controlled in or a profession set up in India) and which is not deemed to accrue or arise in India.

*Computation of total income (other than income from foreign sources)*

Particulars	Rs.	Remarks
Salary from BCD Inc, received in USA	-	Income from foreign sources as accrues/arises outside India
Dividend from PQR Ltd., an Indian company	5,50,000	Deemed to accrue/arise in India as paid by Indian company
Agricultural income from land situated in Bihar	-	Exempt u/s 10(1)
Rent from letting out a house property in Patiala	2,80,000	Deemed to accrue/arise in India. Computed after allowing standard deduction of 30% u/s 24(a) (para 80.5 of Concepts Book)
Profits from a profession carried out in USA, set up in India, received in USA	6,00,000	Profession is setup in India
	<b>14,30,000</b>	

Sukhpreet is a COI who visits India in the PY and has total income (other than income from foreign sources) of ≤ 15 lakh. Visit rule applies. As he is in India for 121 days in the PY which is < 182 days, he is a non-resident. Stateless rule is not applicable. Accordingly, his total income is computed below.

*Computation of total income*

Particulars	Rs.	Remarks
Salary from BCD Inc, received in USA	-	Accrues/arises and received outside India
Dividend from PQR Ltd., an Indian company	5,50,000	Deemed to accrue/arise in India as paid by Indian company
Agricultural income from land situated in Bihar	-	Exempt u/s 10(1) (para 28 of Concepts Book)
Rent from letting out a house property in Patiala	2,80,000	Deemed to accrue/arise in India. Computed after allowing standard deduction of 30% u/s 24(a) (para 80.5 of Concepts Book)
Profits from a profession carried out in USA, set up in India, received in USA	-	Accrues/arises and received outside India
	<b>8,30,000</b>	

**B114. CA2018(MAY)** - Compute the GTI in the hands of an individual if he is ROR or NR.

#	Particulars	Rs.
1	Interest from German Derivative Bonds (1/3 <sup>rd</sup> received in India)	21,000
2	Income from agricultural land situated in Malaysia, remitted to India	51,000
3	Income earned from business in Dubai, controlled from India (Rs. 20,000 received in India)	75,000
4	Profits from business in Mumbai, controlled from Australia	1,75,000
5	Interest received from Ashok (NRI) on loan provided to him for business in India	35,000
6	Dividend from Brown Ltd., an Indian company	30,000
7	Profit from business in Canada controlled from Mumbai (60% deposited in bank in Canada and 40% remitted to India)	60,000
8	Amount received from NRI for use of know-how for his business in Singapore	8,00,000
9	Dividend received from a foreign company in India	25,000
10	Past years untaxed foreign income brought to India	50,000

■

*Computation of gross total income*

#	Particulars	ROR	NR	Comment
1	Interest from German.....	21,000	7,000	Global income taxable for ROR. Taxable for NR to the extent received in India.
2	Income from agricultural.....	51,000	-	Global income taxable for ROR. Not taxable for NR since accrues/arises outside India. Subsequent remittance immaterial.
3	Income earned from business in Dubai.....	75,000	20,000	Global income taxable for ROR. Taxable for NR to the extent received in India since income accrues/arises outside India.
4	Profits from business in Mumbai.....	1,75,000	1,75,000	Taxable in India since accrues/arises in India.
5	Interest received from Ashok.....	35,000	35,000	Global income taxable for ROR. Taxable for NR since loan used for business in India, regardless of residential status of Ashok; deemed to accrue or arise in India u/s 9(1)(v).
6	Dividend from Brown Ltd.....	30,000	30,000	Taxable in India since paid by Indian company; deemed to accrue or arise in India u/s 9(1)(iv).
7	Profit from business in Canada.....	60,000	-	Global income taxable for ROR. Not taxable for NR since accrued/received outside India. Subsequent remittance immaterial (assuming it was remitted after receiving abroad).
8	Amount received from NRI.....	8,00,000	-	Global income taxable for ROR. Not taxable for NR since know-how used for business outside India, regardless of residential status of NRI; not deemed to accrue or arise in India u/s 9(1)(vi).
9	Dividend received.....	25,000	25,000	Global income taxable for ROR. Taxable for NR as received in India.
10	Past years untaxed.....	-	-	Not taxable as does not relate to current AY. Subsequent remittance not relevant.
	<b>Gross total income</b>	<b>12,72,000</b>	<b>2,92,000</b>	

**B115. CA2016(NOV)** – Rajneesh, a citizen of India, serving in the Ministry of Finance in India, was transferred to High Commission of Australia on 15.3.2022. He did not come to India during the FY 2022-23. His income during the FY 2022-23 is given here under:

Particulars	Rs.
Salary from Government of India	7,20,000
Foreign allowances from Government of India	6,00,000
Rent from a house situated at London, received in London	3,60,000
Interest accrued on National Saving Certificate during the year 2022-23	45,000

Compute the gross total income of Rajneesh for AY 2023-24.

■ Since Rajneesh did not stay throughout the PY 2022-23, he is a non-resident (stateless rule does not apply). His gross total income is computed below:

Particulars	Rs.	Comments
Salary from Government....	7,20,000	Salary, for service rendered outside India, paid by Government to citizen of India, is deemed to accrue/arise in India u/s 9(1)(iii).
Foreign allowance.....	-	Exempt u/s 10(7)
Less: Standard deduction u/s 16(ia)	(50,000)	Refer para 73 of Concepts Book
Income from salary	6,70,000	
Rent from a house....	-	Not taxable in India since income does not accrue/arise in India (or is deemed to be so) and is not received in India.
Interest accrued.....	45,000	Taxable in India since income accrues/arises in India
<b>Gross total income</b>	<b>7,15,000</b>	

**B116. CA2014(N) (modified)** – Geetha and Leena are sisters and they earned the following income during the FY 2022-23. Geetha is settled in Malaysia since 1988 and visits India for a month every year. Leena is settled in Indore since her marriage in 1996. Compute the gross total income of Geetha and Leena for AY 2023-24.

#	Particulars	Geetha	Leena
1	Income from profession in Malaysia (set up in India) received there	15,000	-
2	Profit from business in Delhi, but managed directly from Malaysia	40,000	-

3	Rent (computed) from property in Malaysia deposited in a bank at Malaysia, later on remitted to India through approved banking channels	1,20,000	-
4	Dividend from PQR Ltd., an Indian company	5,000	9,000
5	Dividend from a Malaysian company received in Malaysia	15,000	8,000
6	Agricultural income from land in Maharashtra	7,500	4,000
7	Past foreign untaxed income brought to India	5,000	-
8	Fees for technical services rendered in India received in Malaysia	25,000	-
9	Income from a business in Pune (Geetha receives 50% of income in India)	12,000	15,000
10	Interest on debentures in an Indian company (Geetha received the same in Malaysia)	18,500	14,000
11	Short term capital gain on sale of shares of an Indian company	15,000	25,500
12	Interest on savings account with SBI	12,000	8,000

■ Since Geetha is for < 60 days in India during PY 2022-23 and for < 365 days in preceding 4 PYs, she is a NR (stateless rule does not apply). Since Leena is in India since 1995, she is a ROR.

*Computation of gross total income of Geetha and Leena for AY 2023-24*

#	Particulars	Geetha	Leena	Comment
1	Income from profession.....	Nil	-	Accrues or arises and received outside India
2	Profit from business.....	40,000	-	Accrues or arises in India
3	Rent (computed) from.....	Nil	-	Accrues or arises and is received outside India. Subsequent remittance not relevant.
4	Dividend from PQR Ltd.....	5,000	9,000	Deemed to accrue or arise in India as dividend paid by Indian company
5	Dividend from a Malaysian.....	Nil	8,000	Accrues or arises outside India. Global income taxable for Leena.
6	Agricultural income from.....	Nil	Nil	Accrues or arises in India but exempt u/s 10(1) (para 28 of Concepts Book)
7	Past foreign untaxed income.....	Nil	-	Not pertaining to current AY. Subsequent repatriation not relevant.
8	Fees for technical services.....	25,000	-	Accrues or arises in India since service rendered in India
9	Income from a business.....	12,000	15,000	Accrues or arises in India since business in India
10	Interest on debentures.....	18,500	14,000	Accrues or arises in India
11	Short term capital gain.....	15,000	25,500	Accrues or arises in India
12	Interest on savings.....	12,000	8,000	Accrues or arises in India
<b>Gross total income</b>		<b>1,27,500</b>	<b>79,500</b>	

**B117. CA2018(NOV) (modified)** - Surya, an Indian citizen, travelled frequently out of India for his business trip as well as for his outings. He left India from Mumbai airport on 15 May 2022 as stamped in his passport and returned on 27 April 2023. He has been in India for less than 365 days during the 4 preceding PY's. Determine his residential status and gross total income for AY 2023-24 from the following information.

- (1) Short term capital gain on sale of shares of Built India Ltd., a listed Indian company, of Rs. 58,000. Sale proceeds were credited to his bank account in Singapore.
- (2) Dividend of Rs. 48,000 received from Treat Ltd, a Singapore based company, which was transferred to his bank account in Singapore.
- (3) Interest on FD with PNB, Delhi, amounting to Rs. 9,500, was credited to his saving bank account.

■ Stay in India during PY is only 45 days. Hence, he is NR (stateless rule does not apply).

*Computation of gross total income of Surya for AY 2023-24*

Particulars	Amount	Comment
Short term capital gain	58,000	Deemed to accrue/arise in India as capital asset situated in India
Dividend	-	Neither accrued nor received in India
Interest on FD	9,500	Accrued and received in India
<b>Gross total income</b>	<b>67,500</b>	

**B118. CA2020(NOV)** - Mr. Thomas, a non resident and citizen of Japan, entered into following transactions during PY ended 31.3.2023. Examine the tax implications in the hands of Mr. Thomas for AY 2023-24. Give brief reasoning.

1. Interest received from Mr. Marshal, a non resident outside India (the borrowed fund is used by Mr. Marshal for investing in Indian company's debt fund for earning interest).
2. Received Rs. 10 lakh in Japan from a business enterprise in India for granting license for computer software (not hardware specific).
3. He is also engaged in the business of running news agency and earned income of Rs. 10 lakh from collection of news and views in India for transmission outside India.
4. He entered into an agreement with SKK & Co, a partnership firm, for transfer of technical documents and design and for providing services relating thereto, to set up a Denim Jeans manufacturing plant in Surat (India). He charged Rs. 10 lakh for these services from SKK & Co.

#	Tax implications
1	Not deemed to accrue or arise in India u/s 9(1)(v) since funds not used for the purpose of a business or profession carried on by the payer in India. Not taxable.
2	Consideration for use or right to use computer software (including granting of license) is treated as royalty. Taxable in India since it is payable by a resident (business enterprise in India) and license is not used in or for the purposes of a business or profession carried on by the payer outside India; or for the purposes of making or earning any income from any source outside India. Hence, deemed to accrue or arise in India u/s 9(1)(vi).
3	Not deemed to accrue or arise in India u/s 9(1)(i) since activities are confined to the collection of news and views in India for transmission out of India. Not taxable
4	Rs. 10 lakh taxable in India since it represents royalty/FTS payable by a resident and service is not used in or for the purposes of a business or profession carried on by the payer outside India; or for the purposes of making or earning any income from any source outside India. Hence, deemed to accrue or arise in India u/s 9(1)(vii).

**B119. MASTER QUESTION** - Compute the gross total income in the hands of Raghav, aged 45 years, if he is a ROR, RNOR or NR.

#	Particulars	Rs.
1	Interest on German Development Bonds (40% of interest is received in India)	10,000
2	Income from business carried out in Tokyo and controlled from Delhi. Income is received in Tokyo.	20,000
3	Income from profession carried out in Hong Kong and set up in India. 30% income is received in Gurgaon.	30,000
4	Interest credited on fixed deposits in bank account in London, later remitted to India.	15,000
5	Employer's contribution to recognized provident fund in India @ 15% of salary	30,000
6	Income from business carried out in Germany and received there and further taken into account in the group balance sheet prepared in India. Business is controlled from Germany.	50,000
7	Rent from house property in Mumbai, received in Sydney and rent agreement executed in Sydney	14,000
8	Agricultural income from land situated in Malaysia, received in Malaysia	35,000
9	Income from sale of shares of Wipro Ltd., an Indian company, to a non-resident where consideration is received in the bank account in Japan	43,000
10	Salary received in US from Zed Ltd. for services rendered while in Chennai	45,000
11	Salary received in Tokyo from Government of India for working in Japan. Assume that Raghav is a citizen of India.	36,000
12	Dividend received from Tata Steel Ltd., an Indian company, in bank account in Canberra.	26,000
13	Dividend received from JSW, a US based company, in bank account held in London	14,000
14	Interest received from Government of India on money borrowed to fund project in Uganda. Interest was received in Dubai.	46,000
15	Interest received from Piyush, a resident, on loan taken which he used in his business carried out in France	23,000
16	Interest received from John, a non resident, on loan taken which he used to purchase a house property in Kolkata to gain from appreciation in value of property	65,000
17	Fees received from Government of India for providing engineering services for a project being carried out in Maldives	34,000
18	Royalty received from Suraj, a resident, for grant of license to use patent in production process in his factory in Chennai. Royalty was received in Thailand.	37,000
19	Fees received from Abraham, a non resident, for providing management consultancy which he used in the business carried on by him in South Korea. Services were rendered from UK and fee was received in UK.	40,000

## Computation of gross total income of Raghav

#	Remarks	ROR	RNOR	NR
1	Global income taxable for ROR. Taxable for RNOR/NR on receipt basis.	10,000	4,000	4,000
2	Global income taxable for ROR. Taxable for RNOR as business controlled in India.	20,000	20,000	-
3	Global income taxable for ROR. Taxable for RNOR as profession set up in India. Taxable for NR on receipt basis.	30,000	30,000	9,000
4	Global income taxable for ROR. Accrual/receipt outside India. Repatriation not relevant.	15,000	-	-
5	Deemed to be received in India u/s 7 in excess of 12%.	6,000	6,000	6,000
6	Global income taxable for ROR. Not deemed to be received in India merely because taken into account in group B/S prepared in India.	50,000	-	-
7	Accrued in India.	14,000	14,000	14,000
8	Global income taxable for ROR. Accrual/receipt outside India.	35,000	-	-
9	Deemed to accrue/arise in India as capital asset situate in India.	43,000	43,000	43,000
10	Deemed to accrue/arise in India as services rendered in India.	45,000	45,000	45,000
11	Deemed to accrue/arise in India as salary payable by Government to COI even if service rendered outside India.	36,000	36,000	36,000
12	Deemed to accrue/arise in India as paid by Indian company.	26,000	26,000	26,000
13	Global income taxable for ROR. Accrual/receipt outside India.	14,000	-	-
14	Deemed to accrue/arise in India as interest payable by Government.	46,000	46,000	46,000
15	Global income taxable for ROR. Not deemed to accrue/arise in India as loan used by resident payer in business outside India.	23,000	-	-
16	Global income taxable for ROR. Not deemed to accrue/arise in India as loan not used by non-resident payer in business/profession carried in India.	65,000	-	-
17	Deemed to accrue/arise in India as FTS payable by Government.	34,000	34,000	34,000
18	Deemed to accrue/arise in India as right used by resident payer in business in India.	37,000	37,000	37,000
19	Global income taxable for ROR. FTS not deemed to accrue/arise in India as services not used by non-resident payer for business/profession in India or for making/earning income from any source in India.	40,000	-	-
	<b>Gross total income</b>	<b>5,89,000</b>	<b>3,41,000</b>	<b>3,00,000</b>

# MCQ

## RESIDENTIAL STATUS

**M1.** Mr. Raj has determined his total income for the PY 2022-23 at Rs. 5,00,000. As the next step, he wants to ascertain his residential status. In his view, his residential status will only determine the rate of tax at which he will be charged on the total income already determined by him. Is Mr. Raj correct in his approach?

- (a) Yes (b) No

**M2.** Following categories of persons have claimed residential status of RNOR for AY 2023-24. The claim of which of these is tenable?

- (a) Company, firm, LLP (b) Local authority, AOP/BOI  
(c) Individual, HUF (d) Co-operative society, artificial juridical person

**M3.** BCD LLP has declared its residential status as RNOR and, consequently, not offered its foreign incomes to tax in India for AY 2023-24. Is BCD LLP correct in its approach?

- (a) Yes (b) No

**M4.** Shyamal is a non-resident Indian (NRI) under the foreign exchange laws. He wants to claim his residential status under the Income Tax Act as a non-resident even though he is a resident in terms of section 6. Is this permissible?

- (a) Yes (b) No

**M5.** Yuvraj is a ROR for the PY 2022-23. He earned salary income of Rs. 5 lakh (computed) from his Indian employer (received in Delhi) and interest on German Bonds of Rs. 1 lakh (received in Germany). He had purchased bonds in the year when his residential

status was non-resident. He offered Rs. 5 lakh to tax applying the residential status of ROR and did not offer Rs. 1 lakh to tax applying the residential status of NR. Will the AO accept the computation made by Yuvraj?

- (a) Yes (b) No

**M6.** Janki was NR in India for PY 2021-22 and ROR in India for PY 2022-23. She earned interest of Rs. 5 lakh on bonds of a German company during each of these PYs which was received in Germany. She did not offer interest income of PY 2021-22 to tax in India based on her residential status as NR. She also did not offer such income of PY 2022-23 to tax in India on the ground that once treated as a NR for PY 2021-22, she should continue to be treated so for PY 2022-23 as well. Is her contention correct?

- (a) Yes (b) No

**M7.** Shobha, born in Chandigarh on 1.5.1974, has been living in the US since 1991 and has not visited India. She earned capital gain from sale of a building on 15.6.2022 situated in the US. Sales proceeds were received in the US. The AO wants to bring this gain to tax in India on the ground that Shobha was born in India. Is the AO correct?

- (a) Yes (b) No

**M8.** Kapil, a resident of a foreign country under its laws, stayed in India for 185 days during the PY 2022-23. Kapil claims that since he is already a resident abroad, he cannot be a resident in India. Is his contention correct?

- (a) Yes (b) No

**M9.** Jack, a UK national, came on a visit to India during the PY 2022-23. He landed at Mumbai airport on 15.6.2022 and departed from Delhi airport on 14.12.2022. For how many days is Jack present in India?

- (a) 183 days (b) 182 days  
(c) 181 days (d) 180 days

**M10.** In which of the following cases will Mr. C not be treated as a Person of Indian Origin?

- (a) His father was born in Kanpur in 1940 and his mother was born in Lahore in 1945  
(b) His father was born in Kanpur in 1946 and his mother was born in Delhi in 1950  
(c) He was born in Lahore in 1940  
(d) He was born in Mumbai in 1990, his parents were born in Delhi in the 1960s and his grandparents were born in the UK in the 1930s

**M11.** Rachel, a national of Germany, visited India for the first time during the PY 2022-23. She was in Bangalore for 60 days, in Kochi for 80 days and in a remote village for 20 days. In addition, she spent 10 days on a houseboat in a lake in Kerala and 12 days aboard a ship sailing in the territorial waters of India off the coast of Mumbai. Determine her residential status in India for PY 2022-23.

- (a) ROR (b) RNOR  
(c) NR (d) Deemed resident

**M12.** Gaurav, a citizen of India, left India on 1.9.2022 for purpose of employment in Japan. He was in India throughout the preceding 4 previous years. His income from Indian sources is Rs. 3 lakh. Determine his residential status for PY 2022-23.

- (a) ROR (b) RNOR  
(c) NR (d) Deemed resident

**M13.** Sushmita, a citizen of US (not a person of Indian origin) and living there, came to India for the first time on 1.4.2020 and left India for the US on 1.12.2022. Determine her residential status in India for the PY 2022-23.

- (a) ROR (b) RNOR  
(c) NR (d) Deemed resident

**M14.** Suresh, employed with Z Ltd. in Hyderabad is a frequent flyer. During the PY 2022-23, he had to visit foreign countries for official work at different points of time. Consequently, his continuous stay periods in India were of 40 days, 45 days, 20 days, 35 days and 50 days. He claimed his status as a non-resident as none of his continuous stay periods in India was 60 days or more. Determine his correct residential status for PY 2022-23. He has been a non-resident in 2 out of 9 preceding PYs and has been present in India for 1,890 days for the preceding 7 PYs.

- (a) ROR (b) RNOR  
(c) NR (d) Deemed resident

**M15.** Ramesh, a citizen of India, left India on 28.5.2022 to stay with his children in Australia for a period of one year. He had never been out of India before. His total income from Indian sources is Rs. 4 lakh. Determine his residential status for PY 2022-23.

- (a) ROR (b) RNOR  
(c) NR (d) Deemed resident

**M16.** Gunjan, a citizen of India, has stayed in India for 200 days each in PYs 2018-19 to 2021-22. She would be a resident in India for PY 2022-23 in which of the following situations?

- (a) She is a citizen of India and left India for the rest of the year as crew member of an Indian ship (date of joining (b) She is a citizen of India and left India on 27.9.2022 for the rest of the year for the purposes of employment outside

the ship was 28.7.2022 as per Continuous Discharge Certificate). Her total income from Indian sources is Rs. 5 lakh.

India. Her total income from Indian sources is Rs. 5 lakh.

- (c) She is a PIO who came on a visit to India on 15.11.2022 and stayed for the rest of the year. Her total income from Indian sources is Rs. 20 lakh.
- (d) She is a PIO who came on a visit to India on 15.11.2022 and stayed for the rest of the year. Her total income from Indian sources is Rs. 15 lakh.

**M17.** Sush was born in India in 1990. Her father was born in India in 1960 and mother was born in Pakistan in 1962. Both her grandparents were born in England in 1930. Her great grandparents were born in India in 1900. Sush took citizenship of Australia in 2010 and ceased to be a citizen of India. For the PY 2022-23, Sush is:

- (a) Citizen of India (b) Person of Indian origin  
(c) Neither a citizen of India nor a person of Indian origin (d) Citizen of India and a person of Indian origin

**M18.** Shane, a national of Mexico and not being a PIO, has been visiting India every year for 90 days since the last ten years. Determine his residential status for AY 2023-24.

- (a) ROR (b) RNOR  
(c) NR (d) Deemed resident

**M19.** Mr. X left India during the PY 2022-23 as a member of the crew of a foreign bound ship. He has been in India for 100 days in each of the PY 2018-19 to 2021-22. His total income from Indian sources is Rs. 6 lakh. In which of the following situations will Mr. X be treated as a non-resident for PY 2022-23?

- (a) Mr. X is a citizen of France and left India as a member of the crew of an Indian ship. Date of joining the ship as per Continuous Discharge Certificate was 21.9.2022 (b) Mr. X is a citizen of India and left India as a member of the crew of an Indian ship. Date of joining the ship as per Continuous Discharge Certificate was 21.9.2022  
(c) Mr. X is a citizen of India and left India as a member of the crew of a French ship. Date of joining the ship as per Continuous Discharge Certificate was 21.9.2022 (d) Mr. X is a citizen of France and a PIO and he left India as a member of the crew of an Indian ship. Date of joining the ship as per Continuous Discharge Certificate was 21.9.2022

**M20.** Manav has been in India for 300 days every year for the two years preceding PY 2022-23. His total income from Indian sources is Rs. 7 lakh. In which of the following situations will Manav be treated as a non-resident in India for the AY 2023-24?

- (a) Manav, being a citizen of India, left India on 28.9.2022 for taking up self employment in Canada (b) Manav, being a citizen of India, left India on 28.9.2022 for a long vacation in Africa  
(c) Manav, being a PIO and a UK citizen, left India on 28.9.2022 for a long vacation in Africa (d) Manav, being a PIO and a UK citizen, left India on 28.9.2022 for taking up employment in Canada

**M21.** Romil is a citizen of India based out of Australia. During the PY 2022-23, his total income from sources in Australia was Rs. 75 lakh while his total income from sources in India was Rs. 16 lakh. He is liable to tax in Australia. He arrived in India on 1.7.2022 and left on 25.10.2022. His stay in India in the preceding 4 PYs was 380 days. Determine his residential status for PY 2022-23.

- (a) ROR (b) RNOR  
(c) NR (d) Deemed resident

**M21a.** Mr. and Mrs. Z are citizens of Country Y and have been living there since birth. They are not liable to tax in that country. Mother and grandfather of Mr. Z were born in Country Y. Both visit India for 4.5 months every year to be with the parents of Mrs. Z who were born in Bangalore. Grandparents of Mrs. Z were born in Chennai before partition. Income of Mr. and Mrs. Z from Indian sources during the PY 2022-23 is Rs. 18 lakh and Rs. 16 lakh, respectively. Determine their residential status.

- (a) Both are ROR (b) Both are RNOR  
(c) Mr. Z is RNOR and Mrs. Z is ROR (d) Mr. Z is ROR and Mrs. Z is RNOR

**M21b.** Ragini is a citizen of India and a person of Indian origin based out of Mexico. She frequently visits India for various purposes. Her stay in India for the PYs 2018-19 to 2022-23 have been 125 days, 95 days, 115 days, 135 days and 129 days, respectively. She earned the following incomes during the PY 2022-23: income accruing or arising in India (or deemed to accrue or arise in India) of Rs. 3,75,000; income accruing or arising and received outside India from business controlled from India of Rs. 5,50,000; income accruing or arising and received outside India from business controlled outside India of Rs. 6,50,000. What is the residential status and income liable to tax in India in the hands of Ragini for AY 2023-24?

- (a) NR; 3,75,000 is taxable (b) RNOR; 9,25,000 is taxable  
(c) NR; 9,25,000 is taxable (d) RNOR; 15,75,000 is taxable

**M22.** Romil is a citizen of Canada based out of Canada. He is not a PIO. During the PY 2022-23, his total income from sources in Canada was Rs. 75 lakh while his total income from sources in India was Rs. 16 lakh. He arrived in India on 1.7.2022 and left on 25.10.2022. His stay in India in the preceding 4 PYs was 380 days (it was 700 days in the preceding 7 PYs). Determine his residential status for PY 2022-23.



- (a) ROR (b) RNOR  
(c) NR (d) Deemed resident

**M23.** Donald, a US national (not a PIO), has stayed in India during PY 2022-23 for 181 days. He is non-resident in 9 out of 10 preceding PY's. His stay in India is 365 days during the 4 preceding previous years and 420 days during the preceding 7 previous years. His residential status is:

- (a) ROR (b) RNOR  
(c) NR (d) Cannot be ascertained basis given information

**M24.** Ms. Y, a citizen of India, has been living in Singapore for the last 12 years. She earns rental income of Rs. 3 lakh per month from a house in Delhi. Her stay in India is as follows: PY 2018-19 100 days; PY 2019-20 90 days; PY 2020-21 90 days; PY 2021-22 90 days; PY 2022-23 130 days. Determine her residential status for AY 2023-24.

- (a) ROR (b) RNOR  
(c) NR (d) Cannot be ascertained basis given information

**M25.** Mr. Square, an Indian citizen, currently resides in Dubai. He came to India on a visit and his total stay in India during FY 2022-23 was 135 days. He has no source of income in India. Following are his details of stay in India in the preceding PYs.

Financial year	Days of stay in India
2021-22	125
2020-21	106
2019-20	83
2018-19	78
2017-18	37
2016-17	40
2015-16	35

His residential status for PY 2022-23 is:

- (a) RNOR (b) ROR  
(c) NR (d) Resident, but information incomplete to know whether ROR or RNOR

**M26.** Mr. Q is an Indian citizen who runs his business in UK. He also carries on business in India which he manages from UK. For supervising his Indian business, he visits India every year for 5 months. His income from business for PY 2022-23 is Rs. 30 lakh from UK and Rs. 20 lakh from India. He has no income other than this income. What income will be taxable in India for AY 2023-24?

- (a) 50 lakh as he is ROR (b) 20 lakh as he is RNOR  
(c) Nil as he is NR (d) 50 lakh as he is RNOR

**M27.** Mr. V came to India on a visit during the PY 2022-23 for 120 days. He was in India for 125 days in PY 2021-22, 100 days in PY 2020-21, 90 days in PY 2019-20 and 70 days in PY 2018-19. In which of the following situations would Mr. V be treated as a non-resident for PY 2022-23?

- (a) Mr. V is a citizen of UK and not a PIO and he has total income from Indian sources of Rs. 20 lakh (b) Mr. V is a citizen of UK and his grand-parents were born in undivided India and he has total income from Indian sources of Rs. 20 lakh  
(c) Mr. V is a citizen of UK and his grand-parents were born in undivided India and he has total income from Indian sources of Rs. 10 lakh (d) Mr. V is a citizen of UK and not a PIO and he has total income from Indian sources of Rs. 10 lakh

**M28.** In computing income from foreign sources, which of the following is included?

- (a) Income accruing or arising in India (b) Income deemed to accrue or arise in India  
(c) Income accruing or arising outside India and derived from a business controlled in or profession set up in India (d) Income accruing or arising outside India and derived from a business controlled in or profession set up outside India

**M29.** In computing total income, other than income from foreign sources, which of the following is excluded?

- (a) All incomes accruing or arising in India (b) Income accruing or arising outside India and derived from a business controlled in or profession set up in India  
(c) Income accruing or arising outside India and derived from a business controlled in or profession set up outside India (d) Income accruing or arising in India and derived from a business controlled in or profession set up outside India

**M30.** Income exempt from tax, is not included in the total income (other than income from foreign sources).

- (a) True (b) False

**M31.** Citizen of India who becomes a deemed resident by virtue of having total income (other than income from foreign sources) of > 15 lakh in the PY and who is not liable to tax in any other country or territory is always:

- |                                      |  |
|--------------------------------------|--|
| (a) Non-resident                     | (b) Resident but not ordinarily resident       |
| (c) Resident and ordinarily resident | (d) Twin conditions of RNOR need to be checked |

**M32.** In which of the following cases relating to PY 2022-23 will Mr. Z, a citizen of India, be treated as a RNOR? Mr. Z stays in Country X and has not visited India during the PY 2022-23.

- |   |  |
|---|--|
| (a) Total income from Indian sources is Rs. 18 lakh and he is not liable to tax in any other country or territory | (b) Total income from Indian sources is Rs. 18 lakh and he is liable to tax in Country X |
| (c) Total income from Indian sources is Rs. 1 lakh and he is not liable to tax in any other country or territory  | (d) Total income from Indian sources is Rs. 1 lakh and he is liable to tax in Country X  |

**M33.** Saurabh, an Indian citizen, is a business development professional whose work involves travel across the globe. During the PY 2022-23, his stay in any country did not exceed 35 days. As a result, his income of Rs. 1 crore was not liable to tax in any country. Out of this, Rs. 20 lakh were earned on account of a business development assignment given by an Indian concern for which he stayed in India for 32 days. His residential status and taxable income for AY 2023-24 in India would be:

- |                       |                           |
|-----------------------|---------------------------|
| (a) ROR; Rs. 1 crore  | (b) NR; no taxable income |
| (c) RNOR; Rs. 20 lakh | (d) RNOR; Rs. 1 crore     |

**M34.** A person is resident but not ordinarily resident in which of the following cases:

- |  |  |
|--|--|
| (a) Citizen of India who comes on a visit to India and has total income from Indian sources > 15 lakh, if stay in India is 120 to 181 days during current year and at least 365 days in preceding 4 years            | (b) PIO who comes on a visit to India and has total income from Indian sources ≤ 15 lakh if stay in India is at least 182 days during current year and he is NR in at least 9 out of preceding 10 PYs or is in India for less than 730 days in preceding 7 PYs |
| (c) Citizen of India who does not visit India during current year, has total income from Indian sources > 15 lakh, is not liable to tax in any other country or territory and is not a resident under any other rule | (d) All the above  |

**M35.** The affairs of Ramesh HUF are controlled and managed wholly from London. Ramesh, the Karta, is a non-resident based out of London while all the other members are residents in India and are based out of Chennai. What would be the residential status of Ramesh HUF?

- |          |   |
|----------|---|
| (a) RNOR | (b) ROR                                   |
| (c) NR   | (d) Insufficient information to determine |

**M36.** For a resident HUF to become a resident but not ordinarily resident:

- |  |  |
|--|--|
| (a) Any member should be NR in 9 of 10 preceding PY's or in India for ≤ 729 days in preceding 7 PY's | (b) Karta should be NR in 9 of 10 preceding PY's or in India for ≤ 729 days in preceding 7 PY's      |
| (c) Karta should not be NR in 9 of 10 preceding PY's or in India for ≤ 729 days in preceding 7 PY's  | (d) Karta should be NR in 9 of 10 preceding PY's or outside India for ≤ 729 days in preceding 7 PY's |

**M37.** Shyam HUF runs a business from Patna. All its decisions are taken from Patna. After a gap of 10 years, Shyam, its Karta, came to India on 1.4.2022 and has stayed in India since then. The other members of the HUF have been staying in India on a continuous basis since last several years. Determine the residential status of Shyam HUF for AY 2023-24.

- |          |   |
|----------|---|
| (a) RNOR | (b) ROR                                   |
| (c) NR   | (d) Insufficient information to determine |

**M38.** Raj Narain HUF, comprising of Raj Narain, his wife and his son, carries on a business from Hyderabad. Raj Narain and his wife are based out of Sri Lanka from where they control, manage and direct the affairs of HUF in entirety. Their son is based out of Hyderabad from where he manages day to day operations of the HUF as per the directions received from his parents. HUF employs 5 people who work in Hyderabad. Return of income is duly filed every year in India. Determine the residential status of HUF.

- |          |   |
|----------|---|
| (a) RNOR | (b) ROR                                   |
| (c) NR   | (d) Insufficient information to determine |

**M39.** BCD & Co, a partnership firm, has three partners, B, C and D. While B and C are based out of Mumbai, D is based out of Japan. All the partners jointly control and manage the affairs of the firm and take all important decisions. D is a non-resident in India, B is a RNOR in India while C is a ROR in India for the PY 2022-23. Determine the residential status of the firm for AY 2023-24.

- |          |              |
|----------|--------------|
| (a) RNOR | (b) ROR      |
| (c) NR   | (d) Resident |

**M40.** XYZ Pvt. Ltd. is incorporated under the Indian Companies Act, 2013 with its registered office in Dehradun. Its place of effective management is in Mauritius and majority of its shareholders are non-residents in India. What will be its residential status for AY 2023-24?

- |              |                  |
|--------------|------------------|
| (a) Resident | (b) ROR          |
| (c) RNOR     | (d) Non resident |

**M41.** A foreign company is a resident in India where:

- |                           |   |
|---------------------------|---|
| (a) POEM is outside India | (b) POEM is in India and turnover/gross receipts is > 50 Cr |
| (c) POEM is in India      | (d) Can never be resident                                   |

**M42.** The key management and commercial decisions of ABC Ltd., a multi-national foreign company registered in UK, are made in India. During the previous year 2022-23, its turnover is Rs. 45 crore and its gross receipts are Rs. 49 crore. Its residential status would be:

- |              |                  |
|--------------|------------------|
| (a) Resident | (b) Non-resident |
| (c) ROR      | (d) RNOR         |

### SCOPE OF TOTAL INCOME

**M43.** Scope of total income depends on:

- |   |   |
|---|---|
| (a) Residential status                  | (b) Time and place of accrual/araisal of income |
| (c) Time and place of receipt of income | (d) All the above                               |

**M44.** Sushma has provided the following details of her income for the PY 2022-23: Salary of Rs. 6,00,000 (computed) for services rendered in Colombo; income of Rs. 3,00,000 (computed) from letting out commercial complex situated in Pune; dividend of Rs. 2,00,000 from Indian companies. Salary was received in Gandhinagar. All other incomes were received in Colombo. Determine the total income taxable in the hands of Sushma for AY 2023-24, irrespective of her residential status.

- |               |              |
|---------------|--------------|
| (a) 11,00,000 | (b) 9,00,000 |
| (c) 5,00,000  | (d) 8,00,000 |

**M45.** Govind, a citizen of India, left India for the first time on 15.3.2023 to take up employment in the UK. During the FY 2022-23, he earned salary of Rs. 3,00,000 (computed) from his Indian employer, income of Rs. 1,00,000 (computed) from let out house property in the UK, interest of Rs. 50,000 from bonds of German Government and dividend of Rs. 30,000 from US companies. Except for salary, all other incomes were received outside India. Determine the total income taxable in the hands of Govind for AY 2023-24.

- |              |              |
|--------------|--------------|
| (a) 4,00,000 | (b) 3,00,000 |
| (c) 4,80,000 | (d) Nil      |

**M46.** Jasmine, a national of Denmark (not a PIO), has been coming to India for 100 days every year since the PY 2017-18. During the FY 2022-23, she earned income of Rs. 10 lakh from a retail business carried on from Denmark and controlled from Delhi, income of Rs. 6 lakh from a consulting profession carried on from Denmark and setup in Denmark, dividend of Rs. 20,000 from PQR Ltd., an Indian company, and rental income of Rs. 1,50,000 (computed) from a house property located in Malaysia. Rental income was paid in her bank account in Delhi. All other incomes were received in Denmark. Compute her total income for AY 2023-24.

- |               |               |
|---------------|---------------|
| (a) 10,00,000 | (b) 17,70,000 |
| (c) 11,70,000 | (d) 1,70,000  |

**M47.** Charlie, a foreign citizen and a person of Indian origin, visited India for a period of 30 days during the PY 2022-23. During the year, he received rental income of Rs. 1,20,000 in his bank account in Mumbai from letting of vacant land situated in Singapore, interest of Rs. 1,00,000 on deposits with Indian companies, income of Rs. 5,00,000 from a business carried on from the USA but controlled from Mumbai and income of Rs. 2,00,000 from sale executed in New York of shares held in PQR Pvt. Ltd., a company registered in India. Incomes, other than rent, were received in his bank account in New York. Compute his total income.

- |              |              |
|--------------|--------------|
| (a) 9,20,000 | (b) 4,20,000 |
| (c) 2,20,000 | (d) Nil      |

**M48.** During the PY 2022-23, Mr. Q earned salary income of Rs. 10 lakh (computed) for services rendered in Brazil, dividend of Rs. 1 lakh from a foreign company and income of Rs. 6 lakh (computed) from letting out a house on rent in Singapore. All incomes were received in his bank account in Pune and thereafter remitted to UK where he lived. Determine the taxable income of Mr. Q irrespective of his residential status.

- |             |             |
|-------------|-------------|
| (a) 10 lakh | (b) 17 lakh |
| (c) 7 lakh  | (d) Nil     |

**M49.** Mr. Zaidi left India on 1.5.2022 for deputation in Greece for the rest of the year in connection with a project undertaken by his employer. For the PY 2022-23, he received basic salary of Rs. 50,000 p.m. in his bank account in Jodhpur. His employer contributed 15% of salary to his recognized provident fund account with Mr. Zaidi making a matching contribution. Interest @ 10% was credited to the recognized provident fund account for the year of which Rs. 5,000 was in excess of 9.5%. He purchased gold for Rs. 1,50,000

in Greece which he sold there for Rs. 2,00,000 in cash. Determine the aggregate of amounts that will be considered for inclusion in the income of Mr. Zaidi in India for AY 2023-24. You need not compute the amount of taxable income as per the provisions of Act.

- (a) 6,73,000 (b) 6,23,000  
(c) 6,00,000 (d) Nil

**M50.** Govind, a non resident, lives in the US and is employed with a US company. During the PY 2022-23, he earned salary of Rs. 1 lakh in the US which was received in the US. Out of this, he remitted Rs. 20,000 to his parents in India on 31.3.2023. Amount taxable in India would be:

- (a) Rs. 1 lakh (b) Rs. 20,000  
(c) Rs. 80,000 (d) Nil

**M51.** Income accrues or arises when the person acquires the \_\_\_\_ to receive it and where the \_\_\_\_ to receive it arises.

**M52.** JK Ltd. prepared consolidated accounts for its businesses operating in different countries, including India. A total of Rs. 150 crore was accounted for as global income in its consolidated balance sheet out of which Rs. 50 crore was from business carried out in India. The accounts were presented to the shareholders in its annual general meeting held in Mumbai. No part of the overseas income was received in India. What income would be taxable in India?

- (a) 150 crore (b) 50 crore  
(c) 100 crore (d) Nil

**M53.** Mr. X is the owner of a house property situated in South Africa. During the PY 2022-23, he received Rs. 12 lakh (converted in INR) as income from letting of this property. Income was received in South Africa. Rent agreement was entered into in India. Such income would be taxable in India if Mr. X is:

- (a) ROR (b) Either ROR or RNOR  
(c) Non resident (d) Resident or non-resident

**M54.** Sahil was employed with JK Ltd. in Kochi. He received a salary of Rs. 40,000 p.m. from 1.4.2022 to 27.9.2022 in his Mumbai account. He resigned and left India for the first time on 1.10.2022 to go to Dubai and got salary of rupee equivalent of Rs. 80,000 p.m. from 1.10.2022 to 31.3.2023. His salary for October to December 2022 was credited in his Dubai account and salary for January to March 2023 was credited in his Mumbai account directly. He is liable to tax in respect of:

- (a) Income received in India from JK Ltd. (b) Income received in India and in Dubai  
(c) Income received in India from JK Ltd. and income directly credited in India (d) Income received in Dubai

**M55.** Salary accrued to non-resident seafarer, for which of the below services, is not taxable merely due to credit in NRE A/c in Indian bank?

- (a) Services rendered in India on a foreign going ship (b) Services rendered in India on an Indian going ship  
(c) Services rendered outside India on a foreign going ship (d) All the above

**M56.** A person can be said to be an agent of non-resident if:

- (a) He habitually exercises authority to conclude contracts (b) He habitually concludes contracts  
(c) He habitually plays the principal role leading to conclusion of contracts (d) All of the above

**M57.** In which of the following cases, will a person not constitute an agent of non-resident?

- (a) He habitually maintains stock of goods or merchandise in India from which he delivers on behalf of non-resident (b) He habitually secures orders in India mainly or wholly on behalf of non-resident  
(c) He works as an agent of independent status acting in the ordinary course of his business (d) None of the above

**M58.** Mr. Z, a non-resident, sells goods in India through Mr. Y, a commission agent. Mr. Y carries on agency business for multiple clients, including Mr. Z, in the ordinary course of his business and the sales affected through him for Mr. Z amount to 5% of the total sales materialized by him during the year. Mr. Z has:

- (a) Business connection in India as Mr. Y is his agent (b) Business connection in India as Mr. Y is his dependent agent  
(c) No business connection in India as Mr. Y is an independent agent (d) No business connection in India as Mr. Z is a non-resident

**M59.** Kaushik, a non-resident, carries on business of manufacture and sale of computers in Portugal. For this purpose, he procures certain spare parts from India, processes and assembles them in his workshop located in Thane and exports them to Portugal for further use in manufacturing. During the PY 2022-23, his business income was Rs. 200 crore out of which Rs. 5 crore were attributable to the operations carried on in India. Determine the income liable to tax in India for AY 2023-24.

- (a) 200 crore (b) 195 crore

- (c) 5 crore (d) Nil

**M60.** KJ Ltd. is a foreign company engaged in the business of production and distribution of feature films. It's crew visited India during March 2023 for a period of 15 days to shoot a film on the festival of Holi. In which of the following situations will the income arising from such activity be deemed to accrue or arise in India?

- (a) Mr. X, a citizen of India, holds 10% equity shares in KJ Ltd. (b) Mr. J, a citizen of Germany, holds 10% equity shares in KJ Ltd. and he was present in India for 200 days during PY 2022-23
- (c) After shooting the film, the crew processed and produced the film in Delhi and sold the rights to an Indian distributor in Gurgaon, before departing from India (d) All the above

**M61.** In which of the following cases, will income arising to Zed Ltd., a foreign company, not be deemed to accrue or arise in India?

- (a) Purchase of goods in India for export after processing them (b) Collection of news and views in India for transmission within India
- (c) Display of uncut/unassorted diamonds in a special notified zone (d) All of the above

**M62.** Rishabh is a non-resident carrying on business from China. He has appointed Rakesh as his agent in India who regularly concludes contracts on behalf of Rishabh. Will such an arrangement constitute a business connection of Rishabh in India?

- (a) Yes (b) No

**M63.** Income through or from any property, asset or source of income in India is deemed to accrue or arise in India only if income is received in India.

- (a) True (b) False

**M64.** Income from transfer of a capital asset is deemed to accrue or arise in India:

- (a) If it is situated in India (b) Only if it is immovable or tangible
- (c) Only if it is registered in India (d) Only if consideration for transfer is paid in India

**M65.** Kim, a citizen of Japan and a non-resident in India, owns a residential house property in India. It is given on rent to Jim of Japan, another non-resident. Rent agreement is made outside India. Kim receives rental income in Japan in Japanese Yen. Is the rent taxable in India in the hands of Kim?

- (a) Yes (b) No

**M66.** During PY 2022-23, Samar, a non-resident, received Rs. 75 lakh on account of sale of agricultural land in Mauritius. Money was first received in Mauritius and then remitted to his bank account in India. Is the sum taxable in India?

- (a) No, as agricultural income is exempt u/s 10(1) (b) No, as income accrues/arises and is received outside India
- (c) Yes, since remitted to India in same year (d) Yes, as agricultural income earned outside India is not exempt in hands of non-resident

**M67.** John is a resident in Australia and a non-resident in India. During the PY 2022-23, he earned income of Rs. 1 lakh from sale of shares of an Australian company and Rs. 2 lakh from sale of shares of an Indian company. Determine the amount taxable in the hands of John for AY 2023-24 if the sales were executed and incomes were received in Australia.

- (a) 1 lakh (b) 2 lakh
- (c) 3 lakh (d) Nil

**M68.** Sushmita, a RNOR for PY 2021-22 and ROR for PY 2022-23 received rent from property in Canada amounting to Rs. 1.5 lakh during PY 2021-22. Rent was received in her bank account in Canada. During PY 2022-23, she remitted this amount to India through approved banking channels. Is rent taxable in India?

- (a) Yes, 1.5 lakh during both PY 2021-22 and 2022-23 (b) Yes, 1.5 lakh during PY 2021-22
- (c) Yes, 1.5 lakh during PY 2022-23 (d) No

**M69.** Any share or interest in a foreign company is deemed to be situated in India, if:

- (a) Foreign company is resident in India (b) Share/interest derive value, wholly from assets located in India
- (c) Share/interest derive value, substantially from assets located in India (d) Majority shareholders are resident in India

**M70.** Shares of BCD Ltd., a foreign company, derive value substantially from assets located in India. Mr. J, a non-resident, received dividend of Rs. 75,000 from BCD Ltd. outside India. Is dividend taxable in India in the hands of Mr. J?

- (a) Yes (b) No

**M71.** In which of the following situations is salary income not deemed to accrue or arise in India?

- |  |  |
|--|--|
| (a) Salary payable by a private sector employer for services rendered outside India                | (b) Salary payable by a private sector employer for rest period following services rendered in India, as per employment contract |
| (c) Salary payable by Government employer to an Indian citizen for services rendered outside India | (d) Salary payable by a private sector employer to a foreign citizen for services rendered in India                              |

**M72.** Warner, an Indian citizen and a Government employee, left India for the first time on 31.1.2022 on account of his transfer to the High Commission in UK. During PY 2022-23, he visited India only for a week on occasion of his brother's marriage. During FY 2022-23, his income composition included salary, foreign allowances, rent from property in Singapore and interest earned from fixed deposit maintained with branch of SBI in Kanpur. Except interest, all other incomes were received in UK. His taxable income for PY 2022-23 will include:

- |  |                              |
|--|------------------------------|
| (a) Salary, allowances, rent, interest | (b) Only interest            |
| (c) Nothing                            | (d) Only salary and interest |

**M73.** Todd is a non-resident in India and a national of Finland. During the PY 2022-23, he received dividend of Rs. 50,000 from a Finnish company (received in Finland), dividend of Rs. 60,000 from a German company (received in Mumbai), dividend of Rs. 70,000 from an Indian company (received in Finland) and dividend of Rs. 80,000 from an Indian company (received in Mumbai). Determine the amount of income that will be taxable in the hands of Todd for AY 2023-24.

- |              |              |
|--------------|--------------|
| (a) Nil      | (b) 2,60,000 |
| (c) 2,10,000 | (d) 1,50,000 |

**M74.** Dividend income from Australian company received in Australia in the year 2021, brought to India during PY 2022-23, is taxable during AY 2023-24 in case of:

- |         |                       |
|---------|-----------------------|
| (a) ROR | (b) RNOR              |
| (c) NR  | (d) None of the above |

**M75.** Interest income is not deemed to accrue or arise in India where:

- |  |  |
|--|--|
| (a) It is payable by the Government of India   | (b) It is payable by a resident for money borrowed and used to make or earn income from any source outside India                     |
| (c) It is payable by a non-resident for money borrowed and used for purpose of a business or profession carried on by the payer in India | (d) It is payable by a resident for money borrowed and used for purpose of a business or profession carried on by the payer in India |

**M76.** Money-wise Ltd., a non-resident company, earned interest income during the PY 2022-23 as per the following details: Rs. 15 lakh on loan given to the Government of India which was used in an oil exploration project being undertaken in Afghanistan; Rs. 5 lakh on loan given to MK Pvt. Ltd, an Indian company, which was used to expand its business in Malaysia; Rs. 1 lakh on loan given to Mr. T, a resident in India, used by him in his profession carried on from Delhi; Rs. 3 lakh on loan given to JM LLP, a non resident, which was used in its business carried on in the UK; Rs. 2 lakh on loan given to Mr. Q, a non-resident, used by him to invest in shares of Z Ltd., an Indian company. Determine interest income liable to be included in total income of Money-wise Ltd. for AY 2023-24.

- |             |             |
|-------------|-------------|
| (a) 26 lakh | (b) 21 lakh |
| (c) 16 lakh | (d) 15 lakh |

**M77.** Which condition is necessary for a payment to be characterized as royalty?

- |  |   |
|--|---|
| (a) Possession or control of right, property or information should be with the payer | (b) Right, property or information should be used directly by the payer |
| (c) Right, property or information should be located in India                        | (d) None of these is necessary  |

**M78.** Mr. X, a non resident based out of Singapore, derived the following incomes during PY 2022-23: Rs. 2 lakh received for transfer of right to use a patent owned by Mr. X, Rs. 15 lakh received on outright sale of copyright held by Mr. X, Rs. 5 lakh received for supply of know-how concerning working of a complex machine and Rs. 1 lakh towards grant of license to use computer software developed by Mr. X. All the payments were received outside India from XYZ Ltd., an Indian company, which used the rights and property in its business carried out in India. Determine the amount includible in the total income of Mr. X for AY 2023-24 on account of royalty.

- |            |             |
|------------|-------------|
| (a) Nil    | (b) 24 lakh |
| (c) 7 lakh | (d) 8 lakh  |

**M79.** Which of the following services rendered by Mr. Y to his clients would not fall within the purview of FTS?

- |  |  |
|--|--|
| (a) Management of a fund raising project             | (b) Clerical work involving typing                                   |
| (c) Testing and grading services for precious stones | (d) Financial advisory services for setting up new business division |

**M80.** Which of the following amounts received by Mr. Z would be classified as FTS?

- (a) Salary received from employer for rendering technical services as an employee (b) Consideration for a dam construction project
- (c) Fees for providing technical services through work done by his employees (d) Payment for use or right to use a scientific model and design

**M81.** Which of the following is not relevant for determining whether interest, royalty or FTS is deemed to accrue or arise in India?

- (a) Place of entering into the agreement (b) Whether transaction was rendered offline or online
- (c) Currency of payment (d) All of the above

**M82.** In which of the following cases is income deemed to accrue or arise in India in the hands of recipient?

- (a) Royalty payable by a non-resident where property is used in a profession carried on by the non-resident outside India (b) FTS payable by a resident where services are used in a business carried on by the resident outside India
- (c) FTS payable by the Government of India where services are used in a project carried out by the Government outside India (d) Interest payable by a non-resident where money borrowed is used by the non-resident for non-business purpose in India

**M83.** During the PY 2022-23, Mr. Jack, a non-resident based out of Hong Kong, received the following incomes: Rs. 2 lakh for managerial services provided to Mr. Yen, a non-resident, which he used in his business carried on in Japan; Rs. 5 lakh for allowing BKT Pvt. Ltd., an Indian company, to use a secret formula developed by Mr. Jack which the company used in its manufacturing business carried on from Nagpur; Rs. 10 lakh for consulting services provided to the Government of Gujarat in respect of a drilling project carried on in Mauritius. All payments were received in Hong Kong. Determine the amount to be included in the total income of Mr. Jack for the AY 2023-24.

- (a) Nil (b) 17 lakh
- (c) 5 lakh (d) 15 lakh

**M84.** Gary is a non-resident based out of France. During the PY 2022-23 he earned Rs. 10 lakh as fees for technical services provided to Rocky, a non-resident based out of Germany. Services were rendered in France and payment was received in France. Rocky used the services for purposes of his business run from Chennai. Would Rs. 10 lakh be includible in total income of Gary for AY 2022-23?

- (a) Yes (b) No

## Answer Key

M1 B; M2 C; M3 B; M4 B; M5 B; M6 B; M7 B; M8 B; M9 A; M10 D; M11 B; M12 C; M13 A; M14 A; M15 C; M16 C; M17 C; M18 C; M19 B; M20 A; M21a D; M21b A; M21 C; M22 B; M23 B; M24 B; M25 C; M26 B; M27 C; M28 D; M29 C; M30 A; M31 B; M32 A; M33 C; M34 D; M35 C; M36 B; M37 A; M38 C; M39 D; M40 A; M41 B; M42 B; M43 D; M44 A; M45 C; M46 C; M47 B; M48 B; M49 B; M50 D; M51 right, right; M52 B; M53 A; M54 B; M55 C; M56 D; M57 C; M58 C; M59 C; M60 D; M61 C; M62 A; M63 B; M64 A; M65 A; M66 B; M67 B; M68 D; M69 C; M70 B; M71 A; M72 D; M73 C; M74 D; M75 B; M76 C; M77 D; M78 D; M79 B; M80 C; M81 D; M82 C; M83 D; M84 A

## Hints to MCQ answers

**M1.** Total income is to be determined based on residential status

**M2.** Only individual and HUF can be RNOR

**M3.** LLP cannot be RNOR

**M5.** Residential status is determined for each PY for a person. It is same for all sources of income. Yuvraj will need to offer Rs. 6 lakh to tax (being his global income) based on his status as ROR.

**M6.** Residential status is determined for each PY.

**M7.** Residential status is not based on place of birth. Shobha is a NR for PY 2022-23 as stay in India is of zero days. Property is situated outside India and income is received outside India. Not taxable in India.

**M8.** A person can be resident of more than one country. Double taxation in both countries can be avoided by taking resort to tax treaty, if applicable, between India and the foreign country (tax treaties are not within scope of CA Intermediate).

**M9.** Days of arrival and departure are included.

**M10.** Neither Mr. C or any of his parents or grand-parents was born in undivided India.

**M11.** 182 day rule applicable. Presence in India = 182 days. She is resident. Being NR in 9 out of 10 preceding PYs and ≤ 729 days in preceding 7 PYs, she is RNOR.

**M12.** Employment rule applies. He is in India for 154 days being < 182 days. He is a NR.

- M13.** Special rules not applicable as not CIO or PIO. Stay  $\geq 182$  days. Hence, resident under 182-day rule. // Stay from 1.4.2020 to 31.3.2022 is 730 days, i.e.,  $> 729$  days in the preceding 7 PYs. She is in India for  $\geq 182$  days in PY 2020-21 and PY 2021-22. Hence, not a NR in 9 out of 10 preceding PYs. Hence, she is ROR.
- M14.** Continuous stay not necessary. Stay in India = 190 days. He is resident. Not being NR in 9 out of 10 preceding PYs or not being  $\leq 729$  days in preceding 7 PYs, he is ROR.
- M15.** 182 day or 60 day rule applicable. Stay in India = 58 days. Ramesh is NR.
- M16. A:** Not a resident under ship crew rule as stay in India  $< 182$  days // **B:** Not a resident under employment rule as stay in India  $< 182$  days // **D:** Not a resident under visit rule as stay in India  $< 182$  days // **C:** Resident under visit & income rule as stay in India is  $\geq 120$  days. She is  $\geq 365$  days in preceding 4 PYs. RNOR as stay in India  $< 182$  days.
- M17.** Neither she nor her parents or grandparents was born in undivided India – she is not PIO. She is also not COI.
- M18.** 182/60 days rule applies. He is in India for  $< 182$  days. Further, he is in India for  $\geq 60$  days in current year but  $< 365$  days in preceding 4 PYs. Hence, he is NR.
- M19. A & D:** Ship crew rule and Rule 126 do not apply as he is not a citizen of India. 182/60 days rule applies. 1.4.2022 to 21.9.2022 is 174 days, i.e.,  $< 182$  days. But he is in India for  $\geq 60$  days in current year and  $\geq 365$  days in preceding 4 PYs. Hence, he is resident. // **B:** Ship crew rule and Rule 126 applies: 1.4.2022 to 20.9.2022 is 173 days, i.e.,  $< 182$  days. Mr. X is NR. // **C:** Ship crew rule does not apply as ship is not Indian but Rule 126 applies as he is citizen of India. 182/60 days rule applies. 1.4.2022 to 20.9.2022 is 173 days, i.e.,  $< 182$  days. But he is in India for  $\geq 60$  days in current year and  $\geq 365$  days in preceding 4 PYs. Hence, he is resident.
- M20. A:** Employment rule applies. Stay is 181 days, i.e.,  $< 182$  days. He is NR. // **B, C, D:** 182/60 days rule applies. Stay is 181 days, i.e.,  $< 182$  days. But he is in India for  $\geq 60$  days in current PY and  $\geq 365$  days in preceding 4 PYs. Hence, he is resident.
- M21.** TI from Indian sources  $> 15$  lakh. Visit & income rule applies. Stay in India is 117 days which is  $< 120$  days. Not a resident under Visit & Income rule. Stateless rule not applicable as he is liable to tax in Australia. He is NR.
- M21a.** Mr. Z is neither CIO nor PIO. General rules will apply. He is in India for  $\geq 60$  days in the PY and for  $\geq 365$  days in preceding 4 PYs. Hence, a resident. Since he comes to India for 4 months every year, he is not a NR in 9 out of 10 preceding PYs and is not in India for  $\leq 729$  days in preceding 7 PYs. Hence, he is ROR. // Mrs. Z is a PIO who visits India for  $\geq 120$  days in the PY and her total income from Indian sources is  $> 15$  lakh. Visit & Income rule applies. Since she is in India for  $< 182$  days in the PY, she is RNOR.
- M21b.** Total income (other than income from foreign sources) = 3,75,000 + 5,50,000 = 9,25,000. Ragini is COI/PIO who visits India and has total income from Indian sources  $\leq 15$  lakh in the PY. Visit Rule applies. As she is in India for  $< 182$  days, in the PY she is a non-resident. Stateless rule is not applicable as total income from Indian sources is not  $> 15$  lakh. Rs. 3,75,000 is taxable in India. Other incomes are accrued/received outside India and not taxable.
- M22.** Visit & Income rule not applicable as he is not a COI or PIO. 182/60 days rule applies. Stay is 117 days, i.e.,  $< 182$  days. But he is in India for  $\geq 60$  days and  $\geq 365$  days in preceding 4 PYs. Hence, he is resident. As he is in India for  $\leq 729$  days in preceding 7 PYs, he is RNOR.
- M23.** 182/60 days rule applies. Stay is  $< 182$  days. But he is in India for  $\geq 60$  days and  $\geq 365$  days in preceding 4 PYs. Hence, he is resident. As he is NR in 9 out of 10 preceding PYs and also in India  $\leq 729$  days in preceding 7 PYs, he is RNOR.
- M24.** Ms. Y is COI who comes on visit to India and has total income (other than income from foreign sources)  $> 15$  lakh. Visit and Income Rule applies. She is in India for  $\geq 120$  days and  $\geq 365$  days in preceding 4 PYs. Stay in India is  $< 182$  days in PY 2022-23. Hence, she is RNOR.
- M25.** Ms. Square is COI who comes on visit to India and has total income (other than income from foreign sources)  $\leq 15$  lakh. Visit Rule applies. He is  $< 182$  days in PY. Not a resident as per this rule. Stateless rule also not applicable as one of the conditions regarding the aforesaid income being  $> 15$  lakh is not satisfied. He is NR.
- M26.** He is Indian citizen who comes on visit to India during the PY and has total income (other than income from foreign sources)  $> 15$  lakh. Stay in India during PY 2022-23 is  $\geq 120$  days and  $< 182$  days and is  $\geq 365$  days during preceding 4 PYs. Hence, he is RNOR. Indian income will be taxable.
- M27. A & D:** He is not a COI or PIO. 182/60 days rule applies. He is  $\geq 60$  days in current PY and  $\geq 365$  days during preceding 4 PYs. Hence, resident. // **B:** He is PIO and total income from Indian sources is  $> 15$  lakh. Visit & Income rule applies. He is  $\geq 120$  days in current PY and  $\geq 365$  days during preceding 4 PYs. Hence, resident. He is  $< 182$  days. He is RNOR. // **C:** He is PIO and total income from Indian sources is  $\leq 15$  lakh. Visit rule applies. He is  $< 182$  days in current PY. Hence, not a resident under this rule. Stateless rule not applicable as he is not COI. He is NR.
- M32.** Since stay in India is zero, he is not a resident under any special or general rule. **A:** Stateless rule applies. He is deemed resident and RNOR. // **B/C/D:** Stateless rule is not applicable. He is NR.
- M33.** He is COI who comes on a visit to India and income, other than income from foreign sources, is 20 lakh ( $> 15$  lakh). He is not a resident under visit & income rule as stay is  $< 120$  days. Stateless rule applies as he is not liable to tax in any country. He is RNOR. Indian income of 20 lakh is taxable.
- M34.** A: RNOR under visit and income rule. // B: Resident under visit rule who further fulfills RNOR conditions // C: Deemed resident (RNOR) under stateless rule
- M35.** Control and management wholly outside India. Hence, NR.
- M37.** Control and management situated in India. Hence, HUF is resident. Karta is NR in 9 out of 10 preceding PYs and also in India for  $\leq 729$  days in preceding 7 PYs. Hence, HUF is RNOR.
- M38.** Control and management wholly outside India. Hence, NR.
- M39.** Firm is resident unless control and management is wholly situated outside India. ROR/RNOR status applies only to individual or HUF.
- M40.** Indian company is always resident



- M42.** Though POEM is in India, TO/GR does not exceed 50 crore. Hence, it is NR.
- M44.** Salary taxable as received in India; income from property taxable as property situated in India (income accrues/arises in India); dividend from Indian companies is deemed to accrue/arise in India.
- M45.** As stay in India is  $\geq 182$  days, he is resident. Since he is not NR in 9 out of 10 preceding PYs or  $\leq 729$  days in preceding 7 PYs, he is ROR. Hence, global income is taxable.
- M46.** 60 days rule applies. She is  $\geq 60$  days in PY 2022-23 and  $\geq 365$  days in preceding 4 PYs. Hence, she is resident. She has been in India for 500 days in preceding 7 PYs, i.e.,  $\leq 729$  days. Hence, she is RNOR. // 10,00,000: Taxable as income accrues or arises outside India and is derived from a business controlled in India. // 6,00,000: Not taxable as income accrues or arises outside India and is derived from a profession set up outside India. // 20,000: Taxable as deemed to accrue or arise in India since dividend is from an Indian company. // 1,50,000: Taxable as received in India. // Total = 11,70,000
- M47.** Since stay in India is 30 days, he is NR for PY 2022-23. // 1,20,000: Taxable as income received in India though accrued outside India. // 1,00,000: Taxable as income received outside India but accrued in India // 5,00,000: Not taxable as income accrues or arises and is received out of India // 2,00,000: Taxable as income accrued outside India and received outside India but deemed to accrue or arise in India as capital asset situated in India // Total = 4,20,000
- M48.** All are taxable in India irrespective of residential status as received in India even though accrued/arisen outside India.
- M49.** Mr. Zaidi is NR. // Inclusion in total income = 6,00,000 salary received in India + 18,000 employer's contribution to RPF deemed to be received in India (3% of 6,00,000, i.e., in excess of 12%) + 5,000 RPF interest in excess of 9.5% deemed to be received in India + NIL gain on sale of gold as accrued and received outside India = 6,23,000.
- M50.** Not taxable for NR as accrual and receipt outside India; subsequent remittance not relevant.
- M52.** Income accruing or arising outside India is not deemed to be received in India merely because it is taken into account in a balance sheet prepared in India.
- M53.** Income is accrued and received outside India. Taxable only for ROR.
- M54.** Sahil is in India for 184 days. Hence, he is a resident. Since he was present in India all the time up to PY 2021-22, he is ROR. Thus, his global income is taxable.
- M59.** Since operations in India are not confined to purchase of goods in India for the purpose of export, income will be deemed to accrue/arise in India and that attributable to Indian operations will be taxable.
- M60.** A: Exemption not available as a shareholder is a citizen of India. // B: Exemption not available as a shareholder is resident in India. // C: Exemption not available as operations of KJ Ltd. are not confined to shooting of film in India.
- M61.** A and B: Exemption not available as activity not confined to purchase of goods in India for export or to the collection of news and views in India for transmission out of India.
- M63.** It is deemed to accrue/arise in India irrespective of place of receipt.
- M65.** Property is in India; income is deemed to accrue/arise in India
- M66.** Land situated outside India and receipt outside India. Not taxable for NR. Remittance not taxable.
- M67.** John is NR. Amount taxable = Nil for shares of Australian company as income is accrued/received outside India + 2 lakh for shares of Indian company as income is deemed to accrue/arise in India (since capital asset is situated in India).
- M68.** Rent not taxable for RNOR in PY 2021-22 as income accrued/received outside India. Remittance is not taxable.
- M70.** No, as per Circular 4/2015
- M72.** He is NR. Salary paid by Govt to Indian citizen for services outside India is deemed to accrue/arise in India. Allowances are exempt u/s 10(7). Rent not taxable as property outside India and rent received outside India. Interest taxable as source and receipt is in India.
- M73.** 50,000: Not taxable as accrued/received outside India // 60,000: Taxable as received in India // 70,000: Taxable as deemed to accrue/arise in India // 80,000: Taxable as accrued/received in India // Total = 2,10,000
- M74.** Subsequent remittance not taxable
- M76.** Interest from GOI of 15 lakh: Deemed to accrue/arise in India as paid by Government // Interest from MK Pvt. Ltd. of 5 lakh: Not deemed to accrue/arise in India as paid by resident and loan used for business carried on by payer outside India // Interest from Mr. T of 1 lakh: Deemed to accrue/arise in India as paid by resident and loan used for profession carried on by payer in India // Interest from JM LLP of 3 lakh: Not deemed to accrue/arise in India as paid by non-resident and loan used for business carried on by payer outside India // Interest from Mr. Q of 2 lakh: Not deemed to accrue/arise in India as paid by non-resident and loan not used for business or profession carried on by payer in India // Total = 16 lakh
- M78.** All amounts, except capital gain on sale of copyright, are in the nature of royalty. Since payment of royalty is made by a resident and the right/information is used in the business carried on by the payer in India, royalty is deemed to accrue/arise in India.
- M79.** A: Managerial service; C: Technical service; D: Consultancy service
- M80.** A: Salary is not FTS; B: Consideration for construction project is not FTS; D: It is royalty
- M83.** Mr. Yen 2 lakh: FTS is not deemed to accrue/arise in India as the non-resident payer uses services in business carried on by the payer outside India. // BKT Pvt. Ltd. 5 lakh: Royalty deemed to accrue/arise in India as the resident payer uses information in business carried on by the payer in India. // GOG 10 lakh: FTS deemed to accrue/arise in India as the payer is Government // Total = 15 lakh.
- M84.** FTS is deemed to accrue/arise in India as the non-resident payer uses services in business carried on by the payer in India. It is not relevant if Rocky is NR or services are rendered outside India. Status of payer and utilization of services is relevant.



## 4

# Incomes not part of Total Income

## Build Your Confidence (BYC)

### AGRICULTURAL INCOME

**B1-9. MASTER QUESTION** - Are the following incomes exempt from tax as agricultural income?

#	Income
1	Rent of Rs. 3 lakh from land situated in Rajasthan which is used for growing paddy.
2	Income of Rs. 10 lakh from sale of urban agricultural land situated in Assam.
3	Income from growing flowers and herbs
4	Income from sale of butter and cheese made using milk of cattle located on agricultural land
5	Income from poultry farming
6	Suraj produces cotton in his fields and uses it as raw material to make clothes for sale in the market.
7	Das grows tobacco which he first dries and then takes to the market for being sold.
8	Rama carries on the activity of growing sugarcane on her farm land situated in a rural area. She has a store house adjacent to the farm land where she stores sugarcane before taking to the market for being sold.
9	Jane owns a building situated on land which she uses to cultivate crops. The building is used for storing cans of milk used in the dairy business that she carries on. Income from dairy business is Rs. 4 lakh.

#	Exempt?	Comment
1	Yes	Rent from agricultural land in India
2	No	Taxable as capital gains.
3	Yes	-
4	No	No agricultural operations on land
5	No	No agricultural operations on land
6	Partly	Partly agricultural and partly business income. Apportionment will be done to arrive at exempt agricultural income and taxable business income.
7	Yes	Process is ordinarily employed to render the produce fit to be taken to the market (compulsory process).
8	Yes	Building used for agriculture and it is not situated in urban area.
9	No	Building not used for agriculture by Jane.

**B10. CA2017(MAY)** – Discuss with brief reasons, whether rent received for letting out agricultural land for a movie shooting and amounts received from sale of seedlings in a nursery adjacent to the agricultural lands owned by an assessee can be regarded as agricultural income?

*Rent* – Not exempt since not derived from agriculture.

*Sale of seedlings* – Exempt since deemed agricultural income, whether or not any basic operations are carried out on land.

**B11. CA2021(JAN)** - Discuss the taxability of the following transaction giving reasons, in light of relevant provisions, for your conclusion: Rajpal took a land on rent from Shilpa on monthly rent of Rs. 10,000. He sub-let the land to Manish for a monthly rent of Rs. 11,500. Manish uses the land for grazing of cattle required for agricultural activities. Rajpal wants to claim deduction of Rs. 10,000 (being rent paid by him to Shilpa) from rental income received by him from Manish.

■ Rajpal receives rent from land situated in India and used for agricultural purposes. It is agricultural income u/s 2(1A). Ownership of land is not necessary. Expenditure incurred in relation to exempt income is not deductible u/s 14A (para 31).

**B12. CA2021(JAN)** - Discuss the taxability of the following transaction giving reasons, in light of relevant provisions, for your conclusion: Netram grows paddy on land. He then employs mechanical operations on grain to make it fit for sale in the market, like removing hay and chaff from the grain, filtering the grain and finally packing the rice in gunny bags. He claims that entire income earned by him from sale of rice is agricultural income and not liable to income tax since paddy as grown on land is not fit for sale in its original form.

Income from any process ordinarily employed to render the produce fit to be taken to the market (compulsory process) is agricultural income. This may involve both manual and mechanical operations. Thus, income entire income is exempt.

**B12a. CA2021(DEC)** - Discuss with brief reason, whether following incomes can be regarded as agricultural income, as per the provisions of Income-tax Act, 1961.

1. Income received from sale of seedlings in a nursery adjacent to the agriculture land owned by an assessee.
2. Rent received for letting out agricultural land for a soap opera (a television serial)

1. Yes, as deemed to be agricultural income whether or not basic operations are carried out on land.
2. No, as land is not used for agricultural purpose.

**B13. CA2016(NOV) – MASTER QUESTION** - Mr. Kamal grows paddy and uses the same for the purpose of manufacturing of rice in his own rice mill. The cost of cultivation of 40% of paddy produce is Rs. 7,00,000 which is sold for Rs. 15,00,000. The cost of cultivation of balance 60% of paddy is Rs. 12,00,000 and the market value of such paddy is Rs. 24,00,000. To manufacture the rice, he incurred Rs. 2,00,000 in the manufacturing process on the balance 60% paddy. The rice was sold for Rs. 30,00,000. Compute business income and agricultural income of Mr. Kamal.

*Computation of business income and agricultural income of Mr. Kamal*

Particulars	Business income		Agricultural income	
		Rs.	Rs.	Rs.
<b>SALE OF RICE</b>				
<b>Business income:</b>				
Sale proceeds of rice		30,00,000		
Less : Market value of paddy used as raw material (60%)		(-) 24,00,000		
Less: Manufacturing expenses		(-) 2,00,000		
<b>Agricultural income:</b>				
Market value of paddy (60%)			24,00,000	
Less : Cost of cultivation			(-) 12,00,000	
Balance				12,00,000
<b>SALE OF PADDY</b>				
Sale proceeds of paddy produce (40%)			15,00,000	
Less : Cost of cultivation			(-) 7,00,000	
Balance				8,00,000
<b>Total</b>		<b>4,00,000</b>		<b>20,00,000</b>

**B14. CA2018(MAY)** - Miss Kavita, a ROR in India, has derived the following income for year ended 31.3.2023. You are required to compute the business income and agricultural income of Miss Kavita for AY 2023-24.

Particulars	Rs.
Income from sale of centrifuged latex processed from rubber plants grown in Darjeeling	1,00,000
Income from sale of coffee grown and cured in Yercaud, Tamil Nadu	2,00,000
Income from sale of coffee grown, cured, roasted and grounded in Colombo. Sale consideration received in Chennai.	5,00,000
Income from sale of tea grown and manufactured in Shimla	10,00,000
Income from sapling and seedling grown in a nursery at Cochin. Basic operations are not carried out on land.	2,00,000
<b>Total</b>	<b>20,00,000</b>

## Computation of business income and agricultural income of Miss Kavita for AY 2023-24

Particulars	Business income	Agricultural income	Comment
Income from sale of centrifuged latex.....	35,000	65,000	35:65 apportioned u/r 7A
Income from sale of coffee grown and cured.....	50,000	1,50,000	25:75 apportioned u/r 7B
Income from sale of coffee grown, cured.....	5,00,000	-	Agricultural land not in India. Rule 7B applies when operations carried on in India.
Income from sale of tea.....	4,00,000	6,00,000	40:60 apportioned u/r 8
Income from sapling and seedling.....	-	2,00,000	Deemed to be agricultural income
<b>Total</b>	<b>9,85,000</b>	<b>10,15,000</b>	

Mistakes made by students – Apportioned 5 lakh though R. 7B is not applicable. No reasoning given for exempting income from sapling and seedling.

**B15.** Mr. Rose sells tea grown and manufactured by him in Darjeeling, West Bengal. During the PY 2022-23, tea was sold in the market for Rs. 30 lakh. Cost of growing tea leaves was Rs. 10 lakh and cost of manufacturing tea was Rs. 15 lakh. Compute his taxable income.

■ Total income comprises agricultural income and business income. It is apportioned below under Rule 8.

Particular	Rs.
Sale proceeds of tea	30,00,000
Less: Cost of growing tea leaves	(10,00,000)
Less: Cost of manufacturing tea	(15,00,000)
Business income (before apportionment)	5,00,000
Less: Agricultural income (60% exempt)	(3,00,000)
<b>Business income (40% Taxable)</b>	<b>2,00,000</b>

**B16-18.** Examine whether the following incomes are chargeable to tax, and if so, compute the amount liable to tax.

#	Income
1	Agricultural income of Rs. 1,27,000 earned by a resident of India from a land situated in Malaysia
2	<b>CA2013(NOV)</b> - Rent of Rs. 72,000 received for letting out agricultural land for a movie shooting
3	Sale proceeds of raw tea leaves of Rs. 2 lakh. Cultivation expenses of Rs. 50,000.

#	Taxable?	Comment
1	Yes	Land not situated in India. Taxable, assuming assessee is ROR.
2	Yes	Land not put to agricultural use. Taxable.
3	No	Agricultural income. R. 8 does not apply as it is not composite income since no processing is carried out.

**B19. CA2018(MAY) – MASTER QUESTION** - Mr. Avani, a resident aged 25 years, manufactures tea leaves from the tea plants grown by him in India. These are then sold in the market for Rs. 40 lakh. Cost of growing tea plants is Rs. 15 lakh and that of manufacturing tea leaves is Rs. 10 lakh. Compute his tax liability for AY 2023-24. He has not opted for section 115BAC.

## Computation of total income of Mr. Avani

Particulars	Rs.
Rule 8 applies?	Yes
Sale proceeds of tea	40,00,000
Less: Cost of growing tea plants	(15,00,000)
Less: Cost of manufacturing	(10,00,000)
Business income (before apportionment)	15,00,000
Less: Agricultural income (60% exempt)	(9,00,000)
<b>Business income (40% Taxable)</b>	<b>6,00,000</b>

## Computation of tax liability

Particulars	Rs.	Rs.
Net agricultural income	9,00,000	
Non-agricultural income (total income)	6,00,000	
Is NAI > 5,000 and TI > basic exemption limit of 2,50,000?	Yes	
Tax on NAI + TI, i.e., on 15,00,000		2,62,500
Less: Tax on NAI + 2,50,000, i.e., on 11,50,000		(1,57,500)
Tax on total income		<b>1,05,000</b>
HEC @ 4%		4,200
<b>Tax liability</b>		<b>1,09,200</b>

**B20-21.** Jagan is a resident and ordinarily resident in India. During the PY 2022-23, he manufactured rubber from the latex processed from rubber plants grown in Tamil Nadu. Thereafter, he sold the rubber for Rs. 50 lakh. Cost of growing rubber plants was Rs. 25 lakh and the cost of manufacturing rubber was Rs. 10 lakh. He has no other income during the PY 2022-23. Compute his tax liability for AY 2023-24 assuming (a) he is 34 years of age, (b) 61 years of age. He has not opted for section 115BAC.

## Computation of total income

Particulars	Rs.
Rule 7A applies?	Yes
Sale proceeds of rubber	50,00,000
Less: Cost of growing rubber plants	(25,00,000)
Less: Cost of manufacturing rubber	(10,00,000)
Business income (before apportionment)	15,00,000
Less: Agricultural income (65% exempt)	(9,75,000)
<b>Business income (35% Taxable)</b>	<b>5,25,000</b>

## Computation of tax liability

Particulars	He is 34 years of age	He is 61 years of age
Net agricultural income (NAI)	9,75,000	9,75,000
Non-agricultural income (total income)	5,25,000	5,25,000
Is NAI > 5,000 and TI > 2,50,000 (A) or 3,00,000 (B)?	Yes	Yes
Tax on NAI + TI, i.e., on 15,00,000	2,62,500	2,60,000
Less: Tax on NAI + 2,50,000, i.e., on 12,25,000 (A) OR NAI + 3,00,000, i.e., on 12,75,000 (B)	(1,80,000)	(1,92,500)
Tax on total income	<b>82,500</b>	<b>67,500</b>
HEC @ 4%	3,300	2,700
<b>Tax liability</b>	<b>85,800</b>	<b>70,200</b>

## DEDUCTION U/S 10AA

**B22. CA2016(MAY)** – Mr. Suresh has set up an undertaking in SEZ (Unit A) and another undertaking in DTA (Unit B) in the FY 2017-18. In the PY 2022-23, total turnover of the unit A is Rs. 180 lakh and total turnover of unit B is Rs. 120 lakh. Export turnover of Unit A for the year is Rs. 150 lakh and the profit for the Unit A is Rs. 60 lakh. Calculate the deduction available, if any, to Mr. Suresh u/s 10AA for AY 2023-24, if the manufacturing started in Unit A in FY 2017-18.

## Computation of deduction u/s 10AA for AY 2023-24

Particulars	Result
PY 2022-23 is which year from the year Unit A begins manufacturing?	6 <sup>th</sup> year
Deduction available?	50% of profits derived from export of unit in SEZ
Profits of the business of Unit in SEZ × (Export Turnover of Unit in SEZ ÷ Total Turnover of Unit in SEZ)	60 lakh × (150 lakh ÷ 180 lakh) = Rs. 50 lakh.
Deduction	Deduction @ 50% = 25 lakh

Deduction is not available in respect of Unit B in DTA.

**B23.** Softpack Ltd. has furnished the following particulars for year ended 31.3.2023.

Particulars	Rs. (lakh)
Total turnover of Unit A located in SEZ	150
Profits of business of Unit A	50
Export turnover of Unit A	100
Total turnover of Unit B located in Domestic Tariff Area (DTA)	250
Profits of business of Unit B	60

The company commenced operations in SEZ and DTA in the year 2019-20. Compute deduction u/s 10AA for AY 2023-24.

Computation of deduction u/s 10AA for AY 2023-24

Particulars	Result
PY 2022-23 is which year from the year Unit A commenced operations?	4 <sup>th</sup> year
Deduction available?	100% of profits derived from export of unit in SEZ
Deduction = Profits of the business of Unit in SEZ × (Export Turnover of Unit in SEZ ÷ Total Turnover of Unit in SEZ)	$50 \times (100 \div 150) = \text{Rs. } 33.33 \text{ lakh.}$

No deduction u/s 10AA is allowable in respect of profits of business of Unit B located in DTA.

**B24. CA2018(NOV)** – Mrs. Vibha Gupta, a resident individual, is running a SEZ unit as well as a unit in Domestic Tariff Area (DTA). She furnishes the following details relating to the year ended 31.3.2023, pertaining to these two units (Rs. in lakhs).

Particulars	DTA unit	SEZ unit
Export turnover	100	1,000
Total turnover	400	1,100
Net profit	50	220

Compute the deduction available u/s 10AA:

- When the SEZ unit had been set up on 12.3.2015, and
- When the SEZ unit had been set up on 12.8.2019.

Computation of deduction u/s 10AA for AY 2023-24

Particulars	Situation 1	Situation 2
PY 2022-23 is which year from the year SEZ unit commenced operations?	9 <sup>th</sup> year	4 <sup>th</sup> year
Deduction available?	50% of profits derived from export of unit in SEZ	100% of profits derived from export of unit in SEZ
Profits of the business of Unit in SEZ × (Export Turnover of Unit in SEZ ÷ Total Turnover of Unit in SEZ)	$220 \text{ lakh} \times (1,000 \text{ lakh} \div 1,100 \text{ lakh}) = \text{Rs. } 200 \text{ lakh.}$	
Deduction	Deduction @ 50% = 100 lakh	Deduction @ 100% = 200 lakh

No deduction u/s 10AA is allowable in respect of unit located in DTA. *Mistake by students – Did not mention that unit in DTA is not eligible for deduction u/s 10AA.*

**B25. CA2015(MAY) – MASTER QUESTION** - Rudra Ltd. has one unit in SEZ and other unit in DTA. The company provides the following details for PY 2022-23.

Particulars	Rudra Ltd	DTA unit
Total sales	6 crore	2 crore
Export sales	4.6 crore	1.6 crore
Net profit	80 lakh	20 lakh

Calculate the eligible deduction u/s 10AA for AY 2022-23 in the following situations:

- Both units were set up and started manufacturing from 22.5.2016.
- Both units were set up and started manufacturing from 14.5.2019.

Computation of deduction u/s 10AA for AY 2023-24

Particulars	Situation 1	Situation 2
PY 2022-23 is which year from the year SEZ unit begins	7 <sup>th</sup> year	4 <sup>th</sup> year

manufacturing?		
Deduction available?	50% of profits derived from export of unit in SEZ	100% of profits derived from export of unit in SEZ
Total sales of SEZ unit	6 crore – 2 crore = 4 crore	
Export sales	4.6 crore – 1.6 crore = 3 crore	
Net profit	80 lakh – 20 lakh = 60 lakh	
Profits of the business of Unit in SEZ × (Export Turnover of Unit in SEZ ÷ Total Turnover of Unit in SEZ)	60 lakh × (300 lakh ÷ 400 lakh) = Rs. 45 lakh.	
Deduction	Deduction @ 50% = 22.5 lakh	Deduction @ 100% = 45 lakh

No deduction u/s 10AA is allowable in respect of unit located in DTA.

**B26. CA2013(NOV), 2011(MAY)** – Pranay is running two industrial undertakings, Unit A in SEZ and Unit B in a DTA. Brief details for the year ended 31.3.2023 are as under:

Particulars	Unit A (Rs. Lakh)	Unit B (Rs. Lakh)
Domestic turnover	10	100
Export turnover	120	Nil
Gross profit	20	10
Less: Expenses and depreciation	7	6
Profits derived from the units	13	4

Brought forward business loss pertaining to AY 2020-21 for Unit B is Rs. 7 lakh. Compute the total income of Pranay.

Computation of total income of Pranay for AY 2023-24

Computation	Working	Rs.
Total profit	13,00,000 + 4,00,000	17,00,000
Less: B/fd business loss set off u/s 72 (para 191)		(7,00,000)
Total income before giving effect to section 10AA		10,00,000
Less: Deduction u/s 10AA:		
• Export turnover of Unit A	1,20,00,000	
• Total turnover of Unit A	10,00,000 + 1,20,00,000 = 1,30,00,000	
• Profit derived from Unit A	13,00,000	
• Profits derived from export	13 lakh × (1.2 crore ÷ 1.3 crore) = 12 lakh.	
• Deduction u/s 10AA @100% (assuming PY 2022-23 is within first 5 years from the year in which operations began)	Deduction cannot exceed total income computed before allowed deduction	(10,00,000)
<b>Total income</b>		<b>Nil</b>

#### OTHER EXEMPTIONS

**B27-42. MASTER QUESTION** - Examine whether the following incomes are chargeable to tax in the following independent cases, and if so, compute the amount liable to tax.

#	Income
1	Raman received Rs. 20,000 as his share from the income of the HUF of which he is a member. HUF did not pay tax on its income since its total income was below the basic exemption limit.
2	Vani is a partner of ABC LLP. During the year, the LLP earned profit of Rs. 10 lakh. Vani was entitled to 1/5 <sup>th</sup> share.
3	Jayesh is a partner in a firm engaged in agricultural activities whose income is exempt from tax. He received Rs. 1 lakh as his share in the income of the firm.
4	Charles, a resident in India as per Income-tax Act but resident outside India as per FEMA, 1999, earned interest of Rs. 10,000 on NR(E) Account which was credited in such account maintained with State Bank of India in Mumbai.
5	Mike, a national of Denmark, worked in India as an official of the embassy of Denmark. He received a remuneration of Rs. 15 lakh during the PY. Officials of Indian embassy in Denmark were similarly exempted in Denmark. He did not have any other source of income in India.
6	Jacky, a non-resident and a citizen of India, living in the US and employed with US Inc, a US based company, visited India during the PY for 35 days in connection with an assignment undertaken by US Inc. US Inc did not have any business in India and its income was not taxable in India. For this purpose, Jacky received a remuneration of Rs. 1 lakh.

7	Mahi's house, situated in Gujarat, was destroyed in a major earthquake, which qualified as a disaster under the Disaster Management Act. He received compensation of Rs. 14 lakh from the Gujarat Government during the PY.
8	Brijesh had opened a Sukanya Samridhi Account in the name of his daughter. During the year, he received maturity proceeds of Rs. 25 lakh out of which Rs. 5 lakh was interest component.
9	Shaman was awarded scholarship of Rs. 1 lakh during the PY by the Central Government to pursue higher education. He spent Rs. 80,000 towards meeting the cost of education and used the rest for personal purpose.
10	Shankar, aged 15 years, was awarded Rs. 50,000 under a bravery award instituted by the State Government.
11	Virat Kohli received a prize of Rs. 5 lakh towards the 'Man of the Match' title from the Cricket Club of Mumbai.
12	Xavier, a 'Param Vir Chakra' awardee, who was formerly in the service of the Life Insurance Corporation, received a pension of Rs. 2,20,000 during the year.
13	Mrs. Bhutia, a Sikkimese, earned Rs. 2,40,000 as rent from house situated in Sikkim. She got married to Raktim, not a Sikkimese, on 1 June 2007. The couple stays in Mumbai.
14	Mr. Solanki purchased a life insurance policy on 31.3.2012 for a sum assured of Rs. 20 lakh at an annual premium of Rs. 2.25 lakh. He has received Rs. 30 lakh as maturity proceeds during the year.
15	Assume in #14 that the policy was issued on 31.3.2018.
16	Assume in #14 that the policy was issued on 31.3.2018 and the insured suffers from a disease specified u/s 80DDB.

#	Taxable?	Amount taxable	Comment
1	No	-	Exempt u/s 10(2)
2	No	-	Exempt u/s 10(2A)
3	No	-	Exempt u/s 10(2A)
4	No	-	Exempt u/s 10(4)(ii)
5	No	-	Exempt u/s 10(6)(ii)
6	Yes	1,00,000	Income accrues/arises in India; not exempt 10(6)(vi) as Jacky is citizen of India
7	No	-	Exempt u/s 10(10BC)
8	No	-	Exempt u/s 10(11A)
9	No	-	Exempt u/s 10(16)
10	No	-	Exempt u/s 10(17A)
11	Yes	5,00,000	Not exempt u/s 10(17A), since award not instituted or approved in public interest by CG/SG
12	Yes	2,20,000	Not exempt u/s 10(18), since not an employee of CG or SG
13	No	-	Exempt u/s 10(26AAA) as income is from a source in Sikkim and she married non Sikkimese before 1.4.2008.
14	No	-	Exempt u/s 10(10D); it is not an Excess Premium policy as annual premium is not > 20% of sum assured.
15	Yes		Not exempt u/s 10(10D); it is an Excess Premium policy as annual premium is > 10% of sum assured.
16	No	-	Exempt u/s 10(10D); it is not an Excess Premium policy as annual premium is not > 15% of sum assured.

**B43-46.** Examine with reasons in brief whether the following statements are true or false.

#	Statement
1	Exemption is available to a Sikkimese individual only in respect of income from any source in the State of Sikkim
2	Pension received by a recipient of gallantry award, who was a former employee of Central Government, is exempt.
3	Mr. A, a member of HUF, received Rs. 10,000 from out of the income of HUF. Same is to be included in his chargeable income.
4	<b>CA2016(MAY)</b> – Amount received by an individual or his legal heir as compensation for natural disaster from the Government, is taxable.

■ Answer: 1. False - Also available u/s 10(26AAA) in respect of dividend or interest on securities; 2. True - Exempt u/s 10(18); 3. False - Exempt u/s 10(2); 4. False - Exempt u/s 10(10BC)



# MCQ

## AGRICULTURAL INCOME

**M1.** During the PY 2022-23, Kaushik earned rent of Rs. 1,20,000 from plot of land meant for crop harvesting but used for dairy farming, income of Rs. 2,40,000 from rice farming on land situated in Nepal and Rs. 3,00,000 from paddy farming on land situated in Andhra Pradesh. Compute the income chargeable to tax for AY 2023-24.

- (a) Nil (b) 1,20,000  
(c) 3,60,000 (d) 2,40,000

**M2.** During the PY 2022-23, Juhi earned Rs. 5,00,000 as rent from land situated in Tamil Nadu and used for agriculture, income of Rs. 6,00,000 from agricultural operations carried on land situated in Bihar, income of Rs. 3,00,000 from sale of raw sugarcane grown on land situated in Jharkhand and income of Rs. 4,00,000 on sale of agricultural land situated in the urban area of Moradabad. Determine the income chargeable to tax for AY 2023-24.

- (a) 4,00,000 (b) 9,00,000  
(c) 11,00,000 (d) Nil

**M3.** Rahul owns four plots of land: Plot A in rural area used for rice farming, Plot B in rural area used for cattle breeding, Plot C in urban area of Rohtak used for growing sugarcane and Plot D in urban area of Rohtak lying vacant. During the PY 2022-23, he transferred all the plots resulting in income of Rs. 30 lakh for each plot. Determine the income chargeable to tax for AY 2023-24.

- (a) 120 lakh (b) 90 lakh  
(c) 60 lakh (d) 30 lakh

**M4.** Suman runs a nursery where he grows saplings and seedlings in pots. He does not carry out any operation on land. During the PY 2022-23, he earned income of Rs. 6 lakh from sale of such saplings and seedlings. Determine the income chargeable to tax for AY 2023-24.

- (a) Nil (b) 3 lakh  
(c) 6 lakh (d) To be apportioned as per Rule 7

**M5.** Which process is permissible to retain exemption u/s 10(1) in respect of agricultural produce?

- (a) Occasionally employed to render it fit to be taken to the market (b) Ordinarily employed to render it fit to be taken to the factory  
(c) Ordinarily employed to render it fit to be taken to the market (d) Seldom employed to render it fit to be taken to the market

**M6.** Govind carries out farming activities on a plot of land owned by him. During the PY 2022-23 he earned income of Rs. 3,00,000 from sale of pulses in their raw form, income of Rs. 6,00,000 from sale of rice after cleaning and filtering paddy and income of Rs. 2,00,000 from sale of rice milk. Determine the income exempt in the hands of Govind for AY 2023-24.

- (a) Nil (b) 3,00,000  
(c) 9,00,000 (d) 11,00,000

**M7.** Which of the following is not a condition for claiming exemption in respect of income from building used for agriculture?

- (a) It should be on or in immediate vicinity of agricultural land (b) It should be used as a dwelling house, store house or other out-building  
(c) It should always be assessed to land revenue or be subject to a local rate (d) It should be used for agricultural purposes

**M8.** The principal business of a rural society is to sell butter made by its member societies. They make butter from cream sold by farmers. Butter making is a process separated from the farm. Income from sale of butter is exempt as agricultural income.

- (a) True (b) False

**M9.** Mr. Chai holds 40% shares of Chai Ltd. a tea company, whose 60% income is exempt as agricultural income under Rule 8. He receives a dividend of Rs. 1 lakh from Chai Ltd. and claims 60% thereof as exempt from tax. Is Mr. Chai's contention correct?

- (a) Yes (b) No

**M10.** Raj is the managing agent of Saj Ltd. He is entitled to a commission of 10% on the annual net profits of Saj Ltd. The company is engaged in the business of poultry as well as cultivation and sale of rice. Raj claims that a part of his commission, based on profits of Saj Ltd, which is proportionate to the agricultural income of Saj Ltd., is exempt as agricultural income. Is his claim correct?

- (a) Yes (b) No

**M11.** Yana uses a part of agricultural land as pasture for cows. Milk from the cows is regularly sold in the market. Income from milk business is not exempt as agricultural income.

- (a) True (b) False

**M12.** Mr. Junglee owns a patch of forest land. Several medicinal herbs and shrubs grow spontaneously without application of any skill or labour or any agricultural operation being carried on by Mr. Junglee. Income from sale of such herbs and shrubs is not exempt as agricultural income.

- (a) True (b) False

**M13.** Jane has invested in debt securities of Flowers Pvt. Ltd., a company deriving its main source of income from business of growing and processing organic vegetables and fruits. The company has 80% of income exempt as agricultural and 20% taxable as business income. During PY 2022-23, Jane earned Rs. 5,000 as interest on such securities. Which of the following is correct?

- (a) 80% interest is exempt since the company has 80% exempt income (b) 20% interest is exempt since the company has claimed 80% of its income as exempt  
(c) Interest is not exempt (d) Interest is fully exempt

**M14.** Saurabh grows sugarcane in his farm and manufactures sugar in his factory. He sells both sugarcane and sugar in the market. During the PY 2022-23, he sold 60% of sugarcane directly in the market and used the balance to manufacture sugar. Cost of cultivation of sugarcane was Rs. 10,00,000 while he incurred expenses of Rs. 2,00,000 in the manufacturing process. Sugarcane was sold in the market for Rs. 9,00,000 while sugar was sold in the market for Rs. 10,00,000. Market value of sugarcane used in manufacturing was Rs. 6,00,000. Compute the taxable income of Saurabh for AY 2023-24.

- (a) 2,00,000 (b) 4,00,000  
(c) 7,00,000 (d) Nil

**M15.** Ramesh owns rubber plantations in Kerala and sells crepe rubber in the market. During the PY 2022-23, sales from crepe rubber were Rs. 25 lakh. Crepe rubber was manufactured after incurring manufacturing expenses of Rs. 5 lakh and using rubber plants grown at a cost of Rs. 12 lakh. Determine the taxable income of Ramesh for AY 2023-24.

- (a) Nil (b) 8 lakh  
(c) 5,20,000 (d) 2,80,000

**M16.** Srishti owns coffee plantations in Tamil Nadu. During the PY 2022-23, she incurred Rs. 3,00,000 in growing coffee and used 90% of coffee grown in manufacturing flavored coffee after curing, roasting and grinding for which she incurred additional expenditure of Rs. 1,00,000. The coffee was then sold in the market for Rs. 5,00,000. Determine the taxable income of Srishti for AY 2023-24.

- (a) 32,500 (b) 52,000  
(c) 40,000 (d) Nil

**M17.** Gurpreet carries on tea business. 40% of income from this business will be treated as business income where:

- (a) Gurpreet grows tea in Darjeeling which is given to Manpreet for manufacturing in Darjeeling (b) Gurpreet grows and manufactures tea in Colombo  
(c) Gurpreet grows and manufactures tea in Darjeeling (d) All the above

**M18.** Sham Singh spends Rs. 1,00,000 on cultivation and harvesting of his agricultural produce. 50% of the produce is sold for Rs. 1,10,000 and rest is stored for self-consumption. Amount of agricultural income is:

- (a) 60,000 (b) 1,10,000  
(c) 1,20,000 (d) 1,00,000

**M19.** Concept of partial integration of agricultural income with non-agricultural income is applicable to:

- (a) Only individuals and HUF (b) Only firms and companies  
(c) Only individuals, HUF, AOP, BOI and AJP (d) All persons

**M20.** In case of a resident individual aged 61 years, partial integration of agricultural income is not required if his:

- (a) Net agricultural income does not exceed Rs. 5,000 (b) Non agricultural income does not exceed Rs. 2,50,000  
(c) Non agricultural income does not exceed Rs. 3,00,000 (d) (a) or (c)

**M21.** Difference of the following amounts is taken while integrating agricultural income and non-agricultural income for purpose of levy of tax:

- A. Tax on: Total Income + Basic Exemption Limit  
B. Tax on: Net Agricultural Income + Total Income  
C. Tax on: Net Agricultural Income + Basic Exemption Limit

- (a) B – A (b) C – A  
(c) B – C (d) A – B

**M22.** During the PY 2022-23, Dev, resident of age 30 years, has agricultural income of Rs. 3,30,000 and business income of Rs. 2,45,000. Compute his tax liability for AY 2023-24, assuming he has not opted for section 115BAC.

- (a) Nil (b) 28,600  
(c) 24,600 (d) 25,600

**M23.** Devina, a resident aged 81 years, has agricultural income of Rs. 4,50,000 and taxable income from business of Rs. 7,00,000. Her tax liability for AY 2023-24, assuming she does not opt for section 115BAC, will be:

- (a) 1,09,200 (b) 93,600  
(c) 98,800 (d) 57,200

#### DEDUCTION U/S 10AA

**M24.** Deduction u/s 10AA is available to an assessee who begins to manufacture or produce articles or things or provide any services during the period from 1.4.2005 to \_\_\_\_\_ (provided letter of approval has been issued on or before \_\_\_\_\_), in any \_\_\_\_\_.

**M25.** DEF Pvt. Ltd. commenced manufacture of computer parts in a SEZ on 15.12.2020. The letter of approval was issued on 15.3.2020. The SEZ unit was formed with plant and machinery of value Rs. 30 lakh out of which plant and machinery of value Rs. 7 lakh was transferred from another SEZ unit of DEF Pvt. Ltd. What % of export profits would be allowed as deduction u/s 10AA for AY 2023-24?

- (a) Nil (b) 25%  
(c) 50% (d) 100%

**M26.** Suresh commenced manufacture of products in his SEZ unit on 1.6.2019. He purchased plant and machinery for the Unit on 15.1.2019 and the unit was set up on 15.3.2019. The first sale was made on 15.6.2019 What will be the first year of deduction u/s 10AA?

- (a) PY 2018-19 (b) PY 2019-20  
(c) PY 2020-21 (d) Either of (a) or (b) at option of Suresh

**M27.** Jacob set up Units A and B in a SEZ. While Unit A began manufacturing on 1.6.2011, Unit B began manufacturing on 1.6.2015. Profits derived from export for AY 2023-24 were computed at Rs. 10 lakh for Unit A and Rs. 15 lakh for Unit B. None of the Units have yet created a Special Economic Zone Re-investment Reserve Account. Quantum of deduction available u/s 10AA for AY 2023-24 in respect of profits and gains derived by the SEZ units from export of articles would be –

- (a) Nil (b) 7.5 lakh  
(c) 12.5 lakh (d) 25 lakh

**M28.** Amount credited to SEZRRA is deemed to be profits chargeable to tax in which of the following situations?

- (a) Amount is distributed as dividend (b) Amount is not utilized within the specified period of 3 years  
(c) Amount is utilized for purpose of a DTA undertaking (d) All the above

**M29.** Mr. Z has set up a Unit in SEZ which began to manufacture goods for export on 12.7.2019. For the FY 2022-23, total turnover of SEZ Unit was Rs. 60 lakh out of which 75% was on account of exports. Profits of the SEZ unit were computed at Rs. 15 lakh. Turnover included Rs. 5 lakh on account of freight for delivery of goods outside India. Compute the deduction available to Mr. Z u/s 10AA for AY 2023-24.

- (a) 10,00,000 (b) 5,45,455  
(c) 10,90,909 (d) 11,25,000

**M30.** Export consideration includes:

- (a) Export consideration accrued and received outside India (b) Freight, telecommunication and insurance charges attributable to export  
(c) Only that consideration which is brought into India within 3 months from the end of PY (d) Export consideration received in or brought into India

**M31.** Which of the following statements is true in respect of deduction u/s 10AA?

- (a) It is an exemption, hence, does not enter the computation mechanism (b) It is a deduction allowed from gross total income and it cannot exceed such gross total income  
(c) It is a deduction allowed from total income of the unit, computed before giving effect to the deduction (d) It is a deduction allowed from total income of the assessee, computed before giving effect to the deduction and it cannot exceed such total income.

**M32.** PQR Ltd. has two units, one in SEZ and other in DTA. SEZ unit was set up and started manufacturing from 15.6.2016 and DTA unit from 15.6.2019. Total turnover of PQR Ltd. and DTA unit is Rs. 8,00,00,000 and 3,50,00,000, respectively. Export sales of SEZ unit and DTA is 2,80,00,000 and 1,25,00,000, respectively. Net profit of unit in SEZ and DTA is Rs. 70,00,000 and Rs. 42,00,000, respectively. PQR Ltd. would be eligible for deduction u/s 10AA for AY 2023-24 of:

- (a) 43,55,556 (b) 21,77,778  
(c) 12,25,000 (d) 17,71,875

**OTHER EXEMPTIONS**

**M33.** Mr. C received the following during the PY 2022-23: Rs. 5,00,000 received out of the income of HUF of which he is the Karta; Rs. 3,00,000 received as his share in the total income of CD & Co, a partnership firm, of which he is a partner and Rs. 6,00,000 received as salary from the above said partnership firm (entire amount was allowed as deduction in the hands of the firm). HUF enjoys exemption from taxation under the Act. Compute the taxable income of Mr. C for AY 2023-24.

- |               |              |
|---------------|--------------|
| (a) 14,00,000 | (b) 9,00,000 |
| (c) 6,00,000  | (d) Nil      |

**M34.** Mr. X, a non-resident in India, received interest of Rs. 2,00,000 on his Non-resident (External) Account maintained with Bank of India. He was permitted by RBI to maintain such account. He also received interest on deposits with BD Pvt. Ltd., a foreign company, of Rs. 1,50,000 and interest on debentures of XYZ Ltd., an Indian company, of Rs. 2,50,000. Except interest from BD Pvt. Ltd., all other amounts were received in India. Compute his gross total income.

- |              |              |
|--------------|--------------|
| (a) 6,00,000 | (b) 3,50,000 |
| (c) 4,50,000 | (d) 2,50,000 |

**M35.** Which of the below incomes is not exempt in case of an individual, not being a citizen of India?

- |  |  |
|--|--|
| (a) Remuneration of official of foreign embassy if corresponding exemption is available in the foreign country and such official is not engaged in any other business, profession or employment in India | (b) Salary for employment on a foreign ship if the individual is a non-resident and stay in India aggregates to 100 days during the PY |
| (c) Remuneration of employee of foreign Government training in an establishment of Indian Government   | (d) None of the above  |

**M36.** Jack, a foreign national, working with Mice Inc., a USA company, came to India during PY 2022-23 for rendering services on behalf of the employer in connection with a project. He wishes to claim his salary income earned during his stay in India as exempt. Which of the following conditions is not necessary to be fulfilled to claim exemption?

- |  |  |
|--|--|
| (a) Mice Inc should not engage in any business activity in India | (b) Jack should be an overseas citizen of India  |
| (c) Jack's stay in India should not exceed 90 days during the PY | (d) Remuneration should not be liable to be deducted from Mice Inc's income taxable in India |

**M37.** During the PY 2022-23, JBL Inc, a foreign company, deputed Mr. Z, its employee and a citizen of Germany, to carry out an assignment in Mumbai. Mr. Z visited India for this purpose and stayed for 91 days. He received remuneration of Rs. 10 lakh in this respect. Total remuneration paid to him for PY 2022-23 was Rs. 50 lakh which was received outside India. Determine the amount liable to be included in the income of Mr. Z for taxation in India. JBL Inc does not have any business presence or taxable income in India. Mr. Z is a non-resident in India.

- |             |             |
|-------------|-------------|
| (a) Nil     | (b) 10 lakh |
| (c) 40 lakh | (d) 50 lakh |

**M38.** Raman, a resident in India, received the following amounts during the PY 2022-23: Salary of Rs. 12 lakh from the National Technical Research Organization in which he was employed; compensation of Rs. 5 lakh received from the Government of Gujarat for loss caused by an earthquake which was covered under the Disaster Management Act; maturity proceeds of Rs. 20 lakh received from the Sukanya Samriddhi Account which was opened in the name of his girl child and Rs. 5 lakh received from the Government of India as fees for technical services provided by him on account of a project being undertaken by the Government of India in Mauritius. Determine his taxable income for AY 2023-24.

- |             |             |
|-------------|-------------|
| (a) 5 lakh  | (b) Nil     |
| (c) 12 lakh | (d) 17 lakh |

**M39.** In which of the following cases is sum received under a life insurance policy exempt from tax?

- |   |  |
|---|--|
| (a) Policy issued on 1.9.2011 for sum assured of Rs. 25 lakh at an annual premium of Rs. 2.75 lakh  | (b) Policy issued on 1.9.2019 for sum assured of Rs. 25 lakh at an annual premium of Rs. 2.75 lakh               |
| (c) Policy issued on 1.9.2018 for sum assured of Rs. 20 lakh at an annual premium of Rs. 3.5 lakh for a insured suffering from disease referred u/s 80DDB | (d) Keyman insurance policy issued on 1.9.2020 for sum assured of Rs. 25 lakh at an annual premium of Rs. 2 lakh |

**M40.** Rohan received Rs. 2 lakh as scholarship from Tata Education Trust to meet the cost of his higher education. The amount was named as 'learning grant'. Rohan spent Rs. 1.5 lakh on meeting the cost of education. What amount would be included in his taxable income?

- |              |              |
|--------------|--------------|
| (a) 2,00,000 | (b) 1,50,000 |
| (c) 50,000   | (d) Nil      |

**M41.** Mr. Shah, a Member of Parliament, earned the following during the PY 2022-23: Salary of Rs. 2,40,000, daily allowance of Rs. 1,000 per day for 100 days and constituency allowance of Rs. 75,000 for the year. Determine the amount that would be included in his total income for AY 2022-23?

- (a) Nil (b) 2,40,000  
(c) 4,15,000 (d) 3,40,000

**M42.** Which of the following incomes is taxable?

- (a) Pension received from the Central Government by Mr. X, who was awarded Param Vir Chakra (b) Family pension received by widow of Mr. X, an army officer who died in a terrorist attack, while performing his duties  
(c) Monthly pension received by Mr. X, a State Government employee, after retirement (d) All of the above

**M43.** Which of the following incomes is not exempt in case of a Sikkimese individual?

- (a) Income of Mr. K, a Sikkimese, from letting out a house property in Sikkim (b) Dividend earned by Mr. K, a Sikkimese, from JKL Ltd., a company registered in Mumbai  
(c) Interest on debentures earned by Mr. K, a Sikkimese, from JKL Ltd., a company registered in Mumbai (d) Aforesaid incomes of Mrs. K, a Sikkimese, who married Mr. J, a non-Sikkimese, on 1.4.2008

#### DISALLOWANCE UNDER SECTION 14A

**M44.** No deduction is to be allowed in respect of \_\_\_\_\_ incurred by the assessee in relation to \_\_\_\_\_ income.

**M45.** When can the AO determine the amount of disallowance as per Rule 8D?

- (a) When he is not satisfied with the correctness of claim of assessee (b) When assessee claims that no expenditure in relation to exempt income has been incurred  
(c) When he is satisfied with the correctness of claim of assessee (d) Both (a) and (b)

**M46.** Disallowance u/s 14A can exceed the total expenditure claimed by the assessee.

- (a) True (b) False

**M47.** Jagat is an agriculturist based in Madhya Pradesh. During the PY 2022-23, he sold maize for Rs. 10 lakh. He incurred Rs. 3 lakh as expenses on growing maize. He also carried on business of share trading from which he earned Rs. 20 lakh before deducting expenses of Rs. 5 lakh incurred in such business. His taxable income during the PY 2022-23 would be:

- (a) 22 lakh (b) 12 lakh  
(c) 15 lakh (d) 27 lakh

## ANSWER KEY

M1 C; M2 A; M3 B; M4 A; M5 C; M6 C; M7 C; M8 B; M9 B; M10 B; M11 A; M12 A; M13 C; M14 A; M15 D; M16 B; M17 C; M18 A; M19 C; M20 D; M21 C; M22 A; M23 D; M24 31.3.2021, 31.3.2020, SEZ; M25 A; M26 B; M27 B; M28 D; M29 C; M30 D; M31 D; M32 B; M33 C; M34 D; M35 B; M36 B; M37 B; M38 D; M39 A; M40 D; M41 B; M42 C; M43 D; M44 expenditure, exempt; M45 D; M46 B; M47 C

## Hints to MCQ answers

**M1.** Dairy farming: Not exempt as land not used for agriculture; Nepal: Not exempt as land not in India; Andhra Pradesh: Exempt

**M2.** Income from sale taxable as capital gain since land is urban agricultural land. Rest is exempt.

**M3.** Plot A NIL as rural agricultural land + Plot B 30 lakh not exempt as not rural agricultural land + Plot C 30 lakh not exempt as not rural agricultural land + Plot D 30 lakh not exempt as not rural agricultural land = 90 lakh.

**M4.** Income from saplings or seedlings grown in a nursery is deemed to be agricultural income.

**M6.** Exempt = Pulses 3,00,000 as sold in raw form + Rice 6,00,000 as sold after compulsory processing + Rice milk Nil as it is not exempt.

**M7.** It should either be assessed to land revenue/be subject to local rate OR not be situated in urban area

**M8.** Not exempt as no agricultural operations are carried out on land

**M9.** Mere indirect connection with agricultural income is not sufficient for exemption.

**M10.** Mere indirect connection with agricultural income is not sufficient for exemption.

**M11.** Not exempt as no agricultural operations are carried out on land

**M12.** Not exempt as no agricultural operations are carried out on land

**M13.** Mere indirect connection with agricultural income is not sufficient for exemption

- M14.** Agricultural income = 3,00,000 from direct sale (Sale proceeds of sugarcane 9,00,000 – Cost of cultivation (60%) 6,00,000) + 2,00,000 apportioned u/r 7 (Market value of sugarcane used in manufacture 6,00,000 – Cost of cultivation (40%) 4,00,000) = 5,00,000. // Business income = Sale proceeds 10,00,000 – Market value of raw material 6,00,000 – Cost of manufacturing 2,00,000 = 2,00,000.
- M15.** Rule 7A applies. Composite income = 25 lakh – 5 lakh – 12 lakh = 8 lakh. Business income @ 35% = 2,80,000.
- M16.** Rule 7B applies. Composite income = 5,00,000 – 2,70,000 (90% of 300,000) – 1,00,000 = 1,30,000. Business income @ 40% = 52,000.
- M17.** Rule 8 applies to sale of tea grown and manufactured by the seller in India
- M18.** Agri income = 1,10,000 – 50,000 = 60,000
- M22.** No tax liability and no partial integration of agricultural income as TI is not > BEL of 2,50,000
- M23.** Tax on “NAI + TI” of 11,50,000 is 1,45,000. Tax on “NAI + BEL of 5,00,000”, i.e., on 9,50,000 is 90,000. Difference = 55,000. Tax liability = 55,000 + 2,200 HEC = 57,200
- M25.** Used P&M is more than 20% of total value of P&M. Deduction not available.
- M26.** Year in which unit begins manufacture
- M27.** Unit A: AY 2023-24 is 12<sup>th</sup> year. Deduction = Lower of 5 lakh (50% of 10 lakh) or NIL credit to SEZRA = NIL // Unit B: AY 2023-24 is 8<sup>th</sup> year. Deduction = 50% of 15 lakh = 7.5 lakh.
- M29.** AY 2023-24 is 4<sup>th</sup> year, hence, 100% deduction is available. Deduction = Profits of SEZ Unit 15 lakh × [Export turnover of SEZ Unit 40 lakh (45 lakh – 5 lakh) / Total turnover of SEZ Unit 55 lakh (60 lakh – 5 lakh)] = 10,90,909
- M32.** AY 2023-24 is 7<sup>th</sup> year from AY 2017-18. Deduction = 50% of [70,00,000 profit of SEZ unit × (2,80,00,000 export turnover of SEZ unit ÷ 4,50,00,000 total turnover of SEZ unit)]
- M33.** From HUF NIL as exempt u/s 10(2) + Share from firm NIL as exempt u/s 10(2A) + Salary from firm 6,00,000 taxable as PGBP = 6,00,000.
- M34.** NRE interest exempt u/s 10(4)(ii) + BD Pvt. Ltd. not taxable as accrued/received outside India + XYZ Ltd 2,50,000 as accrued/received in India = 2,50,000.
- M35.** A: Exempt u/s 10(6)(ii); B: Not exempt u/s 10(6)(viii) as total stay in India should not exceed 90 days; C: Exempt u/s 10(6)(xi)
- M37.** Remuneration not exempt u/s 10(6)(vi) as stay exceeds 90 days. Rs. 10 lakh is taxable. Balance is not taxable as Mr. Z is a NR and amount is accrued/received outside India.
- M38.** Salary from NTRO is not exempt 12,00,000 + Compensation exempt u/s 10(10BC) + Sukanya Samridhi proceeds exempt u/s 10(11A) + FTS from GOI of 5,00,000 is not exempt = 17,00,000
- M39.** A: Exempt u/s 10(10D). Annual premium is not > 20% of sum assured as policy issued before 1.4.2012. // B: Not exempt u/s 10(10D). Annual premium is > 10% of sum assured as policy issued after 31.3.2012. // C: Not exempt u/s 10(10D). Annual premium is > 15% of sum assured as policy issued after 31.3.2013 and insured is suffering from 80DDB disease // D: Not exempt u/s 10(10D) as it is Keyman insurance policy
- M40.** Exempt u/s 10(16). Amount actually spent is not relevant.
- M41.** Salary is taxable under the head IFOS. Daily/Constituency allowance is exempt u/s 10(17).
- M42.** A: Exempt u/s 10(18); B: Exempt u/s 10(19). C: Taxable under the head ‘Salaries’
- M43.** Exempt = A: Income accruing/arising from source in Sikkim; B: Dividend; C: Interest on securities. // D: Not exempt as Sikkimese women has married a non-Sikkimese on or after 1.4.2008
- M47.** 20 lakh – 5 lakh. Agricultural expenses will not be deducted by virtue of section 14A.



## 5

## Salaries

## Build Your Confidence (BYC)

## BASIC CONCEPTS

**B1-7. BASIC CONCEPTS** – Examine if the income would be chargeable under the head ‘Salaries’ in the following cases:

#	Situation
1	Shahrukh Khan contracts with Balaji Productions Ltd. to act for a film for a fee of Rs. 5 crore.
2	CA Ramji Kumar receives Rs. 1.5 lakh as fee for tax advise given to his clients
3	CA Ramji Kumar is employed with KPMG in its tax advisory division and receives Rs. 1.5 lakh as salary per month.
4	Dhruv receives Rs. 50,000 as remuneration for setting question paper for CA examination.
5	Jacob instructs his employer to donate his salary to a charitable trust. Consequently, he does not receive salary.
6	Shubh receives salary from V&M, a partnership firm, in which he is a partner
7	Shankar’s employer grants him advance against salary of Rs. 1 lakh to meet emergency expenses. This is repaid by deducting Rs. 10,000 every month from his salary.

■

#	Taxable as ‘Salaries’?	Comment
1	No	No employer-employee relationship. Taxable as PGBP.
2	No	No employer-employee relationship. Taxable as PGBP.
3	Yes	Employer-employee relationship. Taxable as salary.
4	No	No employer-employee relationship. Taxable as IFOS.
5	Yes	Application of income post accrual.
6	No	No employer-employee relationship. Covered under PGBP.
7	No	In nature of loan. Not income. Taxable salary does not reduce by the amount of adjustment.

**B8. PAY SCALE** – Meena was appointed with a Government undertaking on 1 June 2017 on a pay scale of 50,000 – 15,000 – 80,000 – 25,000 – 1,80,000. Determine her salary for the PY 2022-23.

■

Period	Salary p.m.
1 June 2017 to 31 May 2018	50,000
1 June 2018 to 31 May 2019	65,000
1 June 2019 to 31 May 2020	80,000
1 June 2020 to 31 May 2021	1,05,000
1 June 2021 to 31 May 2022	1,30,000
1 June 2022 to 31 May 2023	1,55,000

Salary from 1 April 2022 to 31 March 2023 = 1,30,000 p.m. for 2 months + 1,55,000 p.m. for 10 months = 18,10,000.

**B9. BASIS OF CHARGE** - Raju is employed with BCD Pvt. Ltd. He furnishes the following particulars of his salary for the PY 2022-23. Salary becomes due on last day of the month and is received on 3<sup>rd</sup> of next month.

Particulars	Rs.
Salary for January 2022 to February 2023	50,000 pm
Salary for March 2023	70,000 pm
50% salary of May 2023 of Rs. 70,000 received on 10.3.2023	35,000
Salary of January 2022 received on 15.12.2022 (was taxed for PY 2021-22)	50,000
Loan taken from employer on 15.2.2023 at market rate of interest	1,00,000

Compute the amount of salary chargeable to tax for AY 2023-24.

■

## Computation of salary chargeable to tax for AY 2023-24

Particulars	Rs.
Salary for April 2022 to February 2023 = 50,000 pm for 11 months (earlier of due or receipt)	5,50,000
Salary for March 2023 (earlier of due or receipt)	70,000
50% salary of May 2023 received on 10.3.2023 (earlier of due or receipt)	35,000
Salary of January 2022 received on 15.12.2022 (was taxed for PY 2021-22) (not again taxed)	-
Loan taken from employer on 15.2.2023 at market rate of interest (loan is not taxable)	-
	<b>6,55,000</b>

**DEARNESS & COMPENSATORY**

**B10. DEARNESS & COMPENSATORY** - Determine the total taxable amount of the following salary payments made to Josh, employed with Zap India Ltd. in Bangalore.

#	Particulars	Amount	Spend details
1	Basic salary	60,000 p.m.	
2	Dearness allowance	10,000 p.m.	
3	Overtime allowance	1,000 p.m.	
4	Tribal area allowance for working for 2 months in a remote tribal area located in Bihar	6,000	5,000 spent
5	Underground mine allowance for supervising a project in a mine in Rajasthan for 3 months	500 p.m.	1,000 spent

#	Particulars	Amount	Taxable	Comment
1	Basic salary	60,000 p.m.	7,20,000	Fully taxable
2	Dearness allowance	10,000 p.m.	1,20,000	Fully taxable
3	Overtime allowance	1,000 p.m.	12,000	Fully taxable
4	Tribal area allowance.....	6,000	5,600	400 exempt @ 200 p.m.
5	Underground mine allowance.....	500 p.m.	-	Entire amount exempt @ 800 p.m.
			<b>8,57,600</b>	

**RETIREMENT BENEFITS**

**B11. GRATUITY – CA2010(NOV)** – Mr. Shah, an Accounts Manager, has retired from JK Ltd. on 15.1.2023 after rendering services for 30 years, 7 months. His salary is Rs. 25,000 p.m. up to 30.9.2022 and Rs. 27,000 thereafter. He also gets Rs. 2,000 p.m. as dearness allowance (55% of it is a part of salary for computing retirement benefits). He is not covered by the Payment of Gratuity Act, 1972. He has received Rs. 8 lakh as gratuity from his employer company. Compute the amount of taxable gratuity.

## Computation of taxable gratuity

Particulars	Rs.	Rs.
Gratuity received at the time of retirement		8,00,000
Less: Exemption u/s 10(10) = Lower of the following:		
A: Amount actually received as gratuity	8,00,000	
B: Rs. 20 lakh	20,00,000	
C: Half month salary for each year of service:		
• Salary [Basic + DA(T) + C(TO)] of preceding 10 months (Mar to Dec 22) = 2,56,000 (25,000 for 7 months and 27,000 for 3 months) + 11,000 (55% of DA of 20,000) = 2,67,000. Average salary of preceding 10 months = 2,67,000 ÷ 10 = 26,700		
• Half month salary = Average salary of preceding 10 months ÷ 2 = 26,700 ÷ 2 = 13,350		
• Years of service = Retirement date – Joining date = 30 years (Only completed years taken)		
• Half month salary for each year of service = 13,350 × 30	4,00,500	(4,00,500)
<b>Taxable gratuity</b>		<b>3,99,500</b>

**B12-14. GRATUITY** - Sheena resigned from employment on 15.9.2022 after completing 6 years, 6 months and 0 days of service. She has drawn the following emoluments.

Emolument	1.4.2022 to 15.9.2022	1.11.2021 to 31.3.2022
Basic salary p.m.	1,00,000	80,000



<i>Dearness allowance (70% forming part of salary for retirement benefits)</i>	<i>60% of basic salary</i>	<i>60% of basic salary</i>
<i>Commission @ 2% of sales achieved by Sheena</i>	<i>Sales of 5 lakh (Nil sale during Sep 2022)</i>	<i>Sales of 10 lakh</i>
<i>Bonus</i>	<i>3,00,000</i>	<i>1,00,000</i>

She had earlier received gratuity from her previous employer which was then exempted to the extent of Rs. 8 lakh. Compute the gross salary income of Sheena for the PY 2022-23 assuming:

- A. She is a private sector employee and covered by Payment of Gratuity Act, 1972. She received gratuity of Rs. 10 lakh.  
 B. She is a Government employee. She received gratuity of Rs. 21 lakh.  
 C. She is a private sector employee and not covered by Payment of Gratuity Act, 1972. She is paid gratuity to the maximum extent it is fully exempt from tax.

**Situation A: Private sector + POGA – Computation of gross salary income**

Particulars	Rs.	Rs.
Basic salary = 1,00,000 × 5.5 months		5,50,000
Dearness allowance = 60% of basic salary		3,30,000
Commission = 2% of 5 lakh		10,000
Bonus		3,00,000
Gratuity received	10,00,000	
Less: Exemption u/s 10(10) = Lower of the following:	(5,53,846)	4,46,154
A: Amount actually received as gratuity = 10,00,000		
B: Rs. 20 lakh – Rs. 8 lakh exempted earlier = 12,00,000		
C: 15 days salary for each year of service = 5,53,846		
• Salary = Basic salary + DA (last drawn) = 1,60,000		
• 15 days salary = 1,60,000 × (15 ÷ 26) = 92,307.69		
• Years of service = 6 years (period up to 6 months ignored)		
• 15 days salary for each year of service = 92,307.69 × 6 = 5,53,846		
<b>Gross salary income</b>		<b>16,36,154</b>

**Situation B: Government employee – Computation of gross salary income**

Particulars	Rs.	Rs.
Basic salary = 1,00,000 × 5.5 months		5,50,000
Dearness allowance = 60% of basic salary		3,30,000
Commission = 2% of 5 lakh		10,000
Bonus		3,00,000
Gratuity received	21,00,000	
Less: Exemption u/s 10(10)	(21,00,000)	-
<b>Gross salary income</b>		<b>11,90,000</b>

**Situation C: Private sector + Non POGA – Computation of gross salary income**

Particulars	Rs.	Rs.
Basic salary = 1,00,000 × 5.5 months		5,50,000
Dearness allowance = 60% of basic salary		3,30,000
Commission = 2% of 5 lakh		10,000
Bonus		3,00,000
Gratuity received (see working below)	3,92,400	
Less: Gratuity exempt u/s 10(10) (see working below)	(3,92,400)	-
<b>Gross salary income</b>		<b>11,90,000</b>

Working:

Particulars	Rs.
Exemption u/s 10(10) = Lower of the following:	
A: Amount actually received as gratuity (let us say, it is XX)	XX
B: Rs. 20 lakh – Rs. 8 lakh exempted earlier	12,00,000

C: Half month salary for each year of service		
<ul style="list-style-type: none"> <li>Average salary of 10 months preceding Sep 2022 (Nov 21 to Aug 22)</li> </ul> <p>For Apr 22 to Aug 22: Basic + DA(T) + C(TO) = 5,00,000 Basic (1,00,000 × 5) + 2,10,000 DA (70% of 60% of Basic) + 10,000 Commission (2% of 5,00,000) = 7,20,000</p> <p>For Nov 21 to Mar 22: Basic + DA(T) + C(TO) = 4,00,000 Basic (80,000 × 5) + 1,68,000 DA (70% of 60% of Basic) + 20,000 Commission (2% of 10,00,000) = 5,88,000</p> <p>Average salary of 10 months = 13,08,000 (7,20,000 + 5,88,000) ÷ 10 = 1,30,800</p>		
<ul style="list-style-type: none"> <li>Half month salary = Average salary of preceding 10 months ÷ 2 = 1,30,800 ÷ 2 = 65,400</li> </ul>		
<ul style="list-style-type: none"> <li>Years of service = 6 years (Only completed years taken)</li> </ul>		
<ul style="list-style-type: none"> <li>Half month salary for each year of service = 65,400 × 6</li> </ul>		3,92,400

**B15-17. PENSION** – Rishi retired on 1.6.2022 with entitlement to receive Rs. 25,000 p.m. as pension. He commuted 50% of his pension on 1.9.2022 consequent to which he received Rs. 8 lakh as commuted pension. Determine the taxable pension for AY 2023-24 assuming:

- A. Rishi is employed with JKL Pvt. Ltd. and he receives gratuity of Rs. 15 lakh on retirement.  
 B. Rishi is employed with JKL Pvt. Ltd. and he does not receive gratuity on retirement.  
 C. Rishi is employed with the Central Government.

Computation of taxable pension for AY 2023-24

Particulars	A	B	C
Uncommuted pension received (June 22 to Mar 23) = 25,000 p.m. for 3 months (June to Aug) + 12,500 p.m. for 7 months (50% for Sep to Mar)	1,62,500	1,62,500	1,62,500
Commuted pension received	8,00,000	8,00,000	8,00,000
Less: Exemption u/s 10(10A):			
1/3 × (Commuted pension received ÷ Commutation %) × 100 = 1/3 × (8,00,000 ÷ 50) × 100	(5,33,333)		
1/2 × (Commuted pension received ÷ Commutation %) × 100 = 1/2 × (8,00,000 ÷ 50) × 100		(8,00,000)	
Fully exempt			(8,00,000)
<b>Taxable pension</b>	<b>4,29,167</b>	<b>1,62,500</b>	<b>1,62,500</b>

**B18-19. LEAVE SALARY** - Mr. King retired from employment on 15 September 2022 after completing 6 years, 8 months and 2 days of service. He has the following particulars of income for the period since 1 September 2021.

Emolument	Details
Basic salary p.m.	1,00,000
Dearness allowance (75% forming part of salary for retirement benefits)	50% of basic salary
Sales commission @ 1% of sales achieved by Mr. King	Sales of 10 lakh since 1 April 2022. No sales prior to that.
Fixed commission	5,000 p.m.
Gratuity received on retirement (Rs. 1.5 lakh exemption available u/s 10(10) in respect of private sector employee)	2,50,000
Pension per month starting post retirement	10,000
Leave encashment received	3,00,000

Mr. King had earlier received leave encashment from his previous employer which was then exempted to the extent of Rs. 50,000. He was entitled to 35 days of leave every year. During the course of his employment he availed 20 leaves while 10 leaves lapsed as per the rules. He also encashed 15 days of leave during the PY 2021-22. Compute the gross salary income of Mr. King for the PY 2022-23 assuming:

- A. He is an employee of Uttar Pradesh Government.  
 B. He is a private sector employee

Computation of gross salary income of Mr. King for PY 2022-23

Particulars	Rs.	A	B
Basic salary = 1,00,000 p.m. for 5.5 months		5,50,000	5,50,000
Dearness allowance = 50% of basic salary		2,75,000	2,75,000
Sales commission = 1% of 10 lakh		10,000	10,000
Fixed commission = 5,000 p.m. for 5.5 months		27,500	27,500

Gratuity = Fully exempt in Case A for employee of State Government and 1.5 lakh exempt in Case B		-	1,00,000
Pension = Uncommuted pension is taxable. For 6.5 months.		65,000	65,000
Leave encashment: Received		3,00,000	3,00,000
<b>Less: Exempt u/s 10(10AA):</b>			
Fully exempt for State Government employee		(3,00,000)	
Lower of the following for private sector employee:			
<b>A:</b> Leave salary received	3,00,000		
<b>B:</b> Statutory limit = 3,00,000 - 50,000 exempted earlier	2,50,000		
<b>C:</b> 10 months × Average salary <i>Average salary</i> = [Basic + DA(T) + C(TO) of 10 months immediately preceding date of retirement (16 Nov 2021 to 15 Sep 2022)] ÷ 10 = {[1,00,000 Basic + 37,500 DA being 75% of 50% of Basic] × 10 months} + 10,000 Commission ÷ 10 = 13,85,000 ÷ 10 = 1,38,500. <i>10 months × Average salary</i> = 10 × 1,38,500	13,85,000		
<b>D:</b> Leave credit (months) × Average salary <i>Leave credit</i> = (Leave entitlement (max 30 days for each completed year) - Leave availed/lapsed/encashed) ÷ 30 days = [(6 years × 30 days) - 20 availed - 10 lapsed - 15 encashed] = 135 ÷ 30 = 4.5 months <i>Leave credit (months) × Average salary</i> = 4.5 × 1,38,500	6,23,250		
			(2,50,000)
<b>Gross salary income</b>		<b>9,27,500</b>	<b>10,77,500</b>

**B20. PF** - Compute the gross salary income of Shalini after taking into account the following particulars in respect of AY 2023-24. Assume the provident fund to be RPF, UPF, SPF or PPF.

Basic salary	30,000 p.m.
Dearness allowance (60% forms part of salary for retirement benefits)	1/3 <sup>rd</sup> of basic salary
Commission	5,000 p.m.
Overtime allowance	12,000
Employer's contribution to PF account (not being PPF)	15% of basic salary
Shalini's contribution to PF account	15% of basic salary
Interest credited to PF account @ 12.5%	25,000

■  
Computation of gross salary income of Shalini for AY 2023-24

Particulars	RPF	UPF	SPF	PPF
Basic salary @ 30,000 p.m.	3,60,000	3,60,000	3,60,000	3,60,000
Dearness allowance @ 1/3 of basic salary	1,20,000	1,20,000	1,20,000	1,20,000
Commission	60,000	60,000	60,000	60,000
Overtime allowance	12,000	12,000	12,000	12,000
Employer's contribution to PF account: • Exempt for SPF/UPF. Employer does not contribute for PPF. • Exempt up to 12% of salary (Basic + DA(T) + C(TO)) for RPF = 12% of (3,60,000 + 72,000 (60% of DA) + Nil Commission based on % of turnover) = 51,840. Taxable = 54,000 (15% of basic) - 51,840 = 2,160	2,160	-	-	-
Shalini's contribution to PF account: Deduction u/s 80C is available from gross total income for RPF, SPF, PPF.	-	-	-	-
Interest credited to PF account: • Exempt for UPF/SPF/PPF • Taxable for RPF in excess of 9.5% = 25,000 × (3 / 12.5)	6,000	-	-	-
<b>Gross salary income</b>	<b>5,60,160</b>	<b>5,52,000</b>	<b>5,52,000</b>	<b>5,52,000</b>

**B21. PF** – Suhail is employed with JK Ltd since 1.4.2021. He is entitled to basic salary of Rs. 6 lakh per month. During the PY 2022-23, he received various taxable allowances amounting to Rs. 10 lakh. His employer contributes 12% of basic salary towards his RPF account. He makes a similar contribution. Opening balance of his RPF account on 1.4.2022 was Rs. 30,00,000 and interest 3,15,000 accrued during the year (which was not more than 9.5% p.a.). For the PY 2021-22, his employer had contributed a total of Rs.

8,00,000 to RPF which was in addition to his own contribution. Taxable value of annual accretion to RPF for the PY 2021-22 was computed under Rule 3B at Rs. 3,500. Compute the gross salary income of Suhail for AY 2023-24.

**Computation of gross salary of Suhail for AY 2023-24**

Particulars	Rs.
Basic salary	72,00,000
Taxable allowances	10,00,000
Employer's contribution to RPF: Exempt up to 12% of salary	-
Interest on RPF: Exempt up to 9.5%	-
Employer's contribution to RPF+AFS+NPS (RPF in this case) in excess of 7.5 lakh = 8,64,000 (12% of 72,00,000) – 7,50,000	1,14,000
Taxable annual accretion on employer's contribution to RPF computed as per Rule 3B (see Note)	8,652
<b>Gross salary</b>	<b>83,22,652</b>

In addition, interest accrued relating to contribution of Suhail exceeding Rs. 2,50,000 (i.e., 6,14,000) from PY 2021-22 onwards, will not be exempt and will be computed in the manner prescribed under Rule 9D.

Note:

Step	Particulars for RPF+ASF+NPS (RPF in this case)	Result	
<b>1</b>	Compute the following amounts for the period from the PY 2020-21 to the PY preceding the current PY (PY 2021-22), i.e., for the PY 2021-22 in this case		
1.1	Aggregate of taxable employer's contribution (i.e., > 7.5 lakh) for each PY (PY 2021-22 in this case) = 8,00,000 – 7,50,000	PC1	50,000
1.2	Aggregate of taxable accretion for each PY (computed under this Rule) (PY 2021-22 in this case): It is given in the question itself	TP1	3,500
<b>2</b>	Compute the following amounts for the current PY, i.e., PY 2022-23		
2.1	Taxable employer's contribution (i.e., > 7.5 lakh) = 8,64,000 – 7,50,000	PC	1,14,000
2.2	Income accrued: It is given in the question itself	I	3,15,000
2.3	Average balance = (Balance in the fund/scheme on 1 April of PY + Balance in the fund/scheme on 31 March of PY) / 2 = (30,00,000 + 50,43,000) / 2 Balance on 1.4.2022 as given in the question = 30,00,000. Balance on 31.3.2023 = 30,00,000 (opening balance) + 17,28,000 (contributions made during the PY of 8,64,000 each by Suhail and JK Ltd.) + 3,15,000 (income accrued during the PY) = 50,43,000	Favg	40,21,500
2.4	Return = I / Favg	R	0.0783
<b>3</b>	<b>Taxable accretion = [(PC/2) + (PC1 + TP1)] × R = [(1,14,000 / 2) + (50,000 + 3,500)] × 0.0783 = 8,652</b>		

**B22. VRS** – Dev opted for voluntary retirement offered by his employer under a scheme framed in this regard. He received voluntary retirement compensation of Rs. 10 lakh. He had completed 20 years 7 months of service. He still had 4 years of service left. At the time of voluntary retirement on 31.12.2022, he was entitled to basic salary of Rs. 40,000 p.m. and dearness allowance (forming part of pay) of Rs. 10,000 p.m. Compute the amount of taxable VRS compensation. He does not claim any relief u/s 89.

**Computation of taxable VRS compensation**

Particulars	Rs.	Rs.
Voluntary retirement compensation received		10,00,000
Less : Exempt u/s 10(10C) = Lower of:		
A. Amount received	10,00,000	
B. Statutory limit	5,00,000	
C. 3 month salary × Completed years of service = (50,000 × 3) × 20. Salary = 40,000 Basic + 10,000 DA forming part of pay for retirement benefits)	30,00,000	
D. Salary at the time of retirement × Months of service left = 50,000 × 48	24,00,000	(5,00,000)
<b>Taxable voluntary retirement compensation</b>		<b>5,00,000</b>

**B23. RETRENCHMENT – CA2013(MAY)** - Mr. Gobind received retrenchment compensation of Rs. 10 lakh after rendering 30 years 4 months of service. At the time of retrenchment, he was receiving basic salary of Rs. 20,000 p.m. and dearness allowance of Rs. 5,000 p.m. Compute the amount of taxable retrenchment compensation.

■  
*Computation of taxable retrenchment compensation*

Particulars	Rs.	Rs.
Retrenchment compensation received		10,00,000
Less : Exempt u/s 10(10B) = Lower of:		
(A) Amount received	10,00,000	
(B) Statutory limit	5,00,000	
(C) Amount calculated under IDA = $(15 \div 26) \times \text{Average pay of last 3 months} \times \text{Completed years of service}$ (period in excess of 6 months is taken as a year) = $(15 \div 26) \times 25,000$ (assuming it is average pay of last 3 months) $\times 30$	4,32,692	(4,32,692)
<b>Taxable retrenchment compensation</b>		<b>5,67,308</b>

**HEALTH & LIFE**

**B24. MEDICAL FACILITY** – Determine the taxable amount of the following perquisites in respect of medical facilities received by Mr. Kailash from his employer for the PY 2022-23.

#	Particulars	Amount
1	Medical premium paid for insuring health of Kailash	7,000
2	Reimbursement of expenses on treatment of Kailash by his family doctor	5,000
3	Reimbursement of expenses on treatment of Kailash's mother (68 years and dependent) by family doctor	8,000
4	Reimbursement of expenses on treatment of Kailash's sister (dependent) in a private nursing home	3,000
5	Reimbursement of expenses on treatment of Kailash for a prescribed disease in a private hospital (approved)	4,000
6	Reimbursement of expenses on treatment of Kailash's son in a private hospital of illness relating to COVID-19	10,000
7	Reimbursement of expenses on treatment of Kailash's brother (not dependent)	6,000

■  
*Computation of taxable amount of perquisites*

#	Taxable	Comment
1	-	Exempt
2	5,000	Treatment not in specified hospital
3	8,000	Treatment not in specified hospital
4	3,000	Treatment not in specified hospital
5	-	Treatment in approved hospital for prescribed disease
6	-	Treatment for illness relating to COVID-19 (assuming Kailash submitted the prescribed documents to the employer)
7	6,000	Independent brother is not member of family
	<b>22,000</b>	

**B25. MEDICAL FACILITY – CA2014(MAY)** – Rakhi is an employee in a private company. She receives the following medical benefits from the company during PY 2022-23. Determine the taxable amount of these benefits and allowances.

#	Particulars	Amount
	Reimbursement of following medical expenses incurred by Rakhi	
1	• On treatment of her self-employed daughter in private clinic	4,000
2	• On treatment of herself by family doctor	8,000
3	• On treatment of her mother-in-law dependant on her, in a nursing home	5,000
4	Payment of premium on mediclaim policy taken on her health	7,500
5	Medical allowance	2,000 p.m.
6	Medical expenses reimbursed on her son's treatment in Government hospital	5,000
7	Expenses incurred by company on treatment of her minor son abroad	1,05,000
8	Expenses in relation to foreign travel (60,000) and stay of Rakhi and her son abroad (60,000) for medical treatment (limit prescribed by RBI for this is Rs. 2 lakh)	1,20,000

■  
*Computation of taxable amount of perquisites*

#	Taxable	Remarks
1	4,000	Treatment is not in specified hospital.
2	8,000	Treatment is not in specified hospital.

3	5,000	Treatment is not in specified hospital.
4	-	Exempt
5	24,000	Taxable
6	-	Exempt. Treatment in Government hospital; son is a member of family
7	-	Exempt, as treatment and stay expenses of 1,65,000 are within the RBI limit (assuming limit of 2,00,000 in respect of treatment and stay). Minor son is member of family.
8	-	Foreign travel exempt assuming GTI of Rakhi, before including such expenses, does not exceed 2 lakh. Stay expenses exempt as referred above.
	<b>41,000</b>	

### HOUSING

**B26. HRA – Raj has received the following from his employer:**

Basic pay	30,000 p.m.
Dearness allowance	6,000 p.m.
Commission	60,000 p.a.
Fixed medical allowance	5,000 p.m.
House rent allowance	9,000 p.m.

He paid a rent of 10,000 p.m. for the accommodation occupied by him at Kanpur. Find out amount of HRA that is exempt. DA forms part of salary for retirement benefits.

#### Computation of exempt HRA

Particulars	Rs.	Rs.
HRA received		1,08,000
Less: Exempt u/s 10(13A) = Lower of:		
(A) Actual HRA received	1,08,000	
(B) Rent paid – 10% of salary = 1,20,000 – 10% of 4,32,000 (3,60,000 Basic + 72,000 DA + Nil Commission as not based on fixed % of turnover) = 1,20,000 – 43,200	76,800	
(C) 40% of 4,32,000	1,72,800	(76,800)
<b>Taxable HRA</b>		<b>31,200</b>

**B27. HRA – CA2012(MAY) - Mohit is employed with XY Ltd. on a basic salary of Rs. 10,000 p.m. He is also entitled to dearness allowance @ 100% of basic salary, 50% of which is included in salary as per terms of employment. Company gives him house rent allowance of Rs. 6,000 p.m. which was increased to Rs. 7,000 p.m. w.e.f. 1.1.2023. He also got an increment of Rs. 1,000 p.m. in his basic salary w.e.f. 1.2.2023. Rent paid by him during PY 2022-23 is as under:**

- April and May 2022 Nil, as he stayed with his parents
- June to Oct 2022 6,000 p.m. for accommodation in Ghaziabad
- Nov 2022 to Mar 2023 8,000 p.m. for accommodation in Delhi

Compute his gross salary for AY 2023-24.

#### Computation of gross salary for AY 2023-24

Particulars	Rs.	Rs.
Basic salary = (10,000 × 10) + (11,000 × 2)		1,22,000
Dearness allowance = 100% of basic		1,22,000
HRA received = (6,000 × 9) + (7,000 × 3)	75,000	
Less : Exempt u/s 10(13A) (see Note)	(53,700)	21,300
<b>Gross salary</b>		<b>2,65,300</b>

**Note:** Calculations are made separately in respect of periods having the same set of factors.

Particulars	Apr-May	Jun-Oct	Nov-Dec	Jan	Feb-Mar
Monthly basic salary	10,000	10,000	10,000	10,000	11,000
Monthly DA (50% of basic which forms part of salary as per terms of employment)	5,000	5,000	5,000	5,000	5,500
Monthly salary for purpose of HRA exemption	15,000	15,000	15,000	15,000	16,500

Relevant period in months	2	5	2	1	2
Salary for relevant period	30,000	75,000	30,000	15,000	33,000
Rent paid for the relevant period @ 6,000 p.m. from June to Oct and @ 8,000 p.m. from Nov to Mar	Nil	30,000	16,000	8,000	16,000
HRA exempt is lower of:					
A: HRA received @ 6,000 p.m. (@ 7,000 from Jan)		30,000	12,000	7,000	14,000
B: Rent paid – 10% of salary	-	22,500	13,000	6,500	12,700
C: 40% of salary (Gzb) for Jun to Oct and 50% of salary (Delhi) for Nov to Mar	-	30,000	15,000	7,500	16,500
<b>HRA exempt</b>	<b>-*</b>	<b>22,500</b>	<b>12,000</b>	<b>6,500</b>	<b>12,700</b>
<b>Total HRA exempt = 53,700</b>					

\*No exemption as expenditure not incurred on payment of rent.

**B28-32. ACCOMMODATION** – Surabhi has been provided with a residential accommodation by her employer. Following particulars of emoluments are available:

Basic salary	50,000 p.m.
Dearness allowance	25,000 p.m. (50% is part of salary for retirement benefits)
Commission @ 5% of turnover	Turnover Rs. 10 lakh for April to September 2022 and Rs. 15 lakh for rest of the PY
Tiffin allowance	5,000 p.m.
Taxable perquisite on account of medical facilities provided during March 2023	10,000
Arrears of salary of PY 2020-21	2,00,000

The house was made available to her by the employer on 1.9.2022 but she occupied it on 1.10.2022. Determine the taxable value of perquisite for AY 2023-24 in the following cases:

	A	B	C	D	E
Employer	BCD Ltd.	BCD Ltd.	BCD Ltd.	BCD Ltd.	State Government
House owned by employer?	Owned	Owned	On lease - Rent of 15,000 p.m.	Owned	Owned
Location of house	Delhi	Jodhpur	Jodhpur	Pune	Mumbai
Population	> 25 lakh	10-25 lakh	10-25 lakh	> 25 lakh	> 25 lakh
Rent paid by Surabhi	-	5,000 p.m.	12,000 p.m.	15,000 p.m.	15,000 p.m.
Furnished?	Unfurnished	Unfurnished	Unfurnished	Furnished (See Note)	Furnished (See Note)
License fee determined by Government	N/A	N/A	N/A	N/A	10,000 p.m.

Note - Employer has provided wooden furniture that it purchased in March 2022 for Rs. 60,000 and three air conditioners that it has hired. Rent paid by the company for the air conditioners is Rs. 6,000 p.m. Wooden furniture was provided on 1.3.2023 while air conditioners were provided along with the house.

■ Since house is occupied for 6 months, value of perquisite will be computed based on salary of 6 months.

Case A: Value of rent-free unfurnished accommodation

Particulars	Rs.	Comment
Salary for period house is occupied (6 months)		
• Basic salary	3,00,000	Included
• DA (50% of 1,50,000)	75,000	DA(T) included
• Commission @ 5% of Rs. 15 lakh	75,000	Included
• Tiffin allowance	30,000	Included as taxable
• Taxable perquisite for medical facilities	-	Perquisite excluded
• Arrears of salary	-	Not for current period
	<b>4,80,000</b>	
Value of rent free unfurnished accommodation = 15% of salary as population of Delhi > 25 lakh	<b>72,000</b>	

*Case B: Value of unfurnished accommodation provided at concessional rate*

Particulars	Rs.
Value as if it is rent free unfurnished accommodation = 10% of salary of 4,80,000 (computed in Case A), since population of Jodhpur is > 10 lakh and up to 25 lakh	48,000
Less: Rent paid by Surabhi	(30,000)
Value of unfurnished accommodation provided at concessional rent	<b>18,000</b>

*Case C: Value of unfurnished accommodation provided at concessional rate*

Particulars	Rs.
Value as if it is rent free unfurnished accommodation = Lower of:	
• Lease rental of 90,000, or	
• 15% of salary of 4,80,000 (computed in Case A) = 72,000	72,000
Less: Rent paid by Surabhi	(72,000)
Value of unfurnished accommodation provided at concessional rent	<b>Nil</b>

*Case D: Value of furnished accommodation provided at concessional rate*

Particulars	Rs.
Value as if it is rent free furnished accommodation	
• Value of rent free unfurnished accommodation as computed in Case A (since facts are same)	72,000
• Wooden furniture = 10% p.a. of Rs. 60,000 for 1 month	500
• AC = Hire charges for 6 months = 6,000 × 6	36,000
	1,08,500
Less: Rent paid by Surabhi	(90,000)
Value of furnished accommodation provided at concessional rent	<b>18,500</b>

*Case E: Value of furnished accommodation provided at concessional rate*

Particulars	Rs.
Value as if it is rent free furnished accommodation	
• Value of rent free unfurnished accommodation = 10,000 × 6	60,000
• Wooden furniture = 10% p.a. of Rs. 60,000 for 1 month	500
• AC = Hire charges for 6 months = 6,000 × 6	36,000
	96,500
Less: Rent paid by Surabhi	(90,000)
Value of furnished accommodation given at concessional rent	<b>6,500</b>

**B32a.** Ghanshyam, aged 40 years and employed with Z Ltd. in Chennai draws a salary of Rs. 40,000 p.m. Z Ltd. provides him with an option to take HRA of Rs. 8,000 p.m. in which case he would be able to take a house on rent @ Rs. 6,500 p.m. Alternatively, Ghanshyam can also opt for a rent-free accommodation owned by Z Ltd. Advise Ghanshyam on the most beneficial option assuming he does not opt to be governed by section 115BAC. Base your opinion on the basis of net cash flow.

■

*Computation of tax liability of Ghanshyam under both options*

Particulars	HRA	RFA
Basic salary	4,80,000	4,80,000
HRA = 96,000 – 30,000 exempt as computed below: HRA exempt = Lower of (a) HRA received of 96,000, (b) Rent paid – 10% of salary = 78,000 – 48,000 (10% of 4,80,000) = 30,000, (c) 50% of salary = 2,40,000.	66,000	-
Rent free accommodation: Value = 15% of salary = 15% of 4,80,000	-	72,000
Gross salary	5,46,000	5,52,000
Less: Standard deduction (see para 73)	(50,000)	(50,000)
Income under the head 'Salaries' and also the Total Income	4,96,000	5,02,000
Tax on total income	12,300	12,900
Less: Rebate u/s 87A up to 12,500 where total income does not exceed 5 lakh	(12,300)	-
	-	12,900
Add: HEC @ 4%	-	516



Tax payable	-	13,416
Tax payable (rounded off)	-	13,420

*Cash flow statement*

Particulars	HRA	RFA
Inflow on account of salary (and HRA in case of HRA option)	5,76,000	4,80,000
Outflow on account of rent in case of HRA option and tax in case of RFA option	(78,000)	(13,420)
Net inflow	4,98,000	4,66,580

HRA option is more beneficial since net cash inflow is higher. Ghanshyam should opt for HRA option.

**TRAVEL & CONVEYANCE**

**B33-35. SPECIAL ALLOWANCES** – Determine taxability of the following allowances received by Ram Kumar from his employer.

#	Allowance	Amount	Spend details
1	Travelling allowance for a 5-day official tour to Rajkot	50,000	20,000 on travel expenses for tour and 10,000 on personal expenses on sightseeing.
2	Conveyance allowance for commuting between residence and office and travelling on official duties	7,000 p.m.	50,000 spent on official duty and balance spent on commuting between residence and office
3	<b>CA2018(NOV)</b> - Allowance received which has been granted to meet his personal expenditure while on duty (he is working in a transport system). He is not in receipt of any daily allowance from his employer.	12,000 p.m.	Not available

#	Taxable	Comment
1	30,000	Expense incurred for stated purpose is exempt. Taxable = 50,000 – 20,000
2	34,000	Spend on conveyance for performing official duties is exempt. Taxable = 84,000 – 50,000
3	43,200	70% of 1,44,000 is exempt (1,00,800) up to max of 10,000 p.m. (1,20,000). Taxable = 1,44,000 – 1,00,800

**B36-37. LTC** – Chaitanya, employed with Z India Ltd. in Delhi, received Rs. 1 lakh as leave travel concession during the PY 2022-23 which he used on travel during October 2022. He lives with his wife, parents (mother is dependent on him, father is not) and 3 children (twins were born on 1 April 2010 and the next child was born on 1 June 2015). Compute the amount of taxable LTC in the following cases.

Particulars	Case A	Case B
Who travelled	Parents and children	Chaitanya, wife, parents, children
LTC already availed for the block period 2022-2025	Journey in January 2022	None
Place of destination	South Africa	Manali
Travelled by	Vistara	Bus
Expenses on travel	75,000 per person via Dubai	@ 6,000 per person
Boarding & lodging expenses	1 lakh	40,000
Other information	Economy class return airfare for direct flight by Air India is 50,000 per person	Deluxe class return bus fare is 6,000 per person. This represents a recognized public transport system.

*Computation of taxable LTC*

Particulars	Case A	Case B
Is exemption available?	No, since destination is not in India and Chaitanya did not travel	Yes
Who is entitled?	-	Chaitanya, wife, twins and mother. Third child and father (not dependent) are not entitled.
Exemption	-	Lower of: A: Amount spent = 30,000 (@ 6,000 per person) B: Deluxe class bus fare for shortest route* = 30,000 (@ 6,000 per person)
<b>LTC taxable</b>	<b>1,00,000</b>	<b>1,00,000 – 30,000 = 70,000</b>

\*Delhi and Manali are not connected by rail and recognized public transport system exists.

**B38-39. LTC - CA2016(NOV), 2013(MAY)** – Compute the amount of LTC exemption in the following cases:

- (a) Suresh went on a holiday on 9.9.2022 to Mysore with his wife and 3 children – one daughter born on 2.2.2014 and twin sons born on 5.5.2016. The total cost of travel was Rs. 80,000. The ticket cost for Suresh and his wife was Rs. 50,000 and for all three children was Rs. 30,000. The employer reimbursed total ticket cost of Rs. 80,000.
- (b) In above case, if among his 3 children, the twin sons were born on 2.2.2014 and the daughter was born on 5.5.2016, what shall be the exemption?

- 
- (a) Restriction of 2 children is not applicable to multiple births after one child. Hence, LTC can be claimed for Suresh, his wife and 3 children. Since holiday is in India and journey is performed by Air India air economy class (assumed), the entire reimbursement met by employer is fully exempt.
- (b) In the second case, since twins are born first, exemption cannot be claimed for daughter. Hence, Rs. 10,000 towards daughter is not exempt. LTC exempt is Rs. 70,000.

**B40-47. MOTOR CAR** – Jay is in possession of a motor car, provided by Z Ltd., his employer. Maintenance and running expenses are borne by Z Ltd. Compute the taxable amount of perquisite for AY 2023-24 in the following situations:

Particulars	I	II	III	IV	V	VI	VII	VIII
Owner	Jay	Jay	Jay	Z Ltd	Z Ltd	Z Ltd	Jay	Z Ltd.
Usage	Official	Personal	Mixed	Official	Personal	Mixed	Mixed	Mixed
% official use	100%	0%	75%	100%	0%	20%	40%	90%
Expenditure borne by	Z Ltd	Z Ltd	Z Ltd	Z Ltd	Z Ltd	Z Ltd	Jay	Jay
Expenditure:								
• Maintenance	15,000	15,000	15,000	10,000	15,000	-	20,000	20,000
• Hire charges	-	-	-	-	-	24,000	-	-
• Chauffeur	24,000	24,000	24,000	18,000	24,000	36,000	15,000	Self driven
Cost of car	4 lakh	4 lakh	4 lakh	4 lakh	4 lakh	4 lakh	4 lakh	4 lakh
CC of Car	1,800	1,200	1,200	1,800	1,200	1,800	1,800	1,200
Months car used	12	9	6	11	9	10	12	6
Payment by Jay	-	10,000	-	-	10,000	15,000	-	-

■ Case I: Exempt as car used wholly for official purpose. Assuming Z Ltd. maintains log book and issues the requisite certificate to Jay that expenditure was incurred wholly for official purposes.

Case II: Car owned by Jay and use is wholly personal. Taxable value = 39,000 (maintenance and chauffeur expenses borne by Z Ltd.) – 10,000 (recovered from Jay) = 29,000.

Case III: Car owned by Jay, use is mixed and expenses borne by Z Ltd. Taxable value = 39,000 (maintenance and chauffeur expenses borne by Z Ltd.) – 16,200 (@ 2,700 p.m. (1,800 + 900) for 6 months) = 22,800. Higher amount, corresponding to 75% official use, can be deducted if Z Ltd. maintains log book and issues the requisite certificate to Jay.

Case IV: Exempt as car used wholly for official purpose. Assuming Z Ltd. maintains log book and issues the requisite certificate to Jay that expenditure was incurred wholly for official purposes.

Case V: Car owned by Z Ltd. and use is wholly personal. Taxable value = 30,000 (10% p.a. of cost of 4 lakh for 9 months) + 15,000 maintenance + 24,000 chauffeur – 10,000 recovery = 59,000.

Case VI: Car owned by Z Ltd., use is mixed and expenses borne by Z Ltd. Taxable value = 3,300 p.m. (2,400 + 900) for 10 months – 15,000 = 18,000.

Case VII: Car owned by Jay and expenses borne by Jay. No perquisite since no benefit arises to Jay as he owns the cars and bears expenses.

Case VIII: Car owned by Z Ltd., use is mixed and expenses borne by Jay. Taxable value = 600 p.m. for 6 months = 3,600.

**EDUCATION****B48-50. SPECIAL ALLOWANCES** – Determine taxability of the following allowances provided to Josh, employed with Zap India Ltd. in Bangalore, during the PY 2021-22.

#	Allowance	Amount	Spend details
1	Research allowance granted to complete a technical education course for official purpose	25,000	30,000 spent
2	Children education allowance	1,000 p.m.	1,000 p.m. on each of his 3 children
3	Children hostel allowance	1,500 p.m.	No spend. All children stay with Josh at home

■

#	Taxable	Comment
1	-	Expense incurred for stated purpose is exempt
2	9,600	2,400 is exempt @ 100 p.m. per child up to 2 children. Taxable = 12,000 – 2,400
3	10,800	7,200 is exempt @ 300 p.m. per child up to 2 children. Taxable = 18,000 – 7,200

**B51-54. EDUCATION FACILITY** – Determine the value of taxable perquisite in the case of Seema for the following situations, who is employed with Gyan Pvt. Ltd. as a manager.

#	Situation
1	Seema attends a conference on recent management trends. Fee of Rs. 5,000 is paid by her employer.
2	Daughter of Seema studies in a school owned by Gyan Pvt. Ltd. Cost of similar education in a nearby school is Rs. 1,000 p.m. Seema is charged Rs. 500 p.m.
3	Son of Seema studies in Ram Krishna school with which Gyan Pvt. Ltd. has a tie up. Cost of similar education in a nearby school is Rs. 1,500 p.m. Seema is charged Rs. 500 p.m.
4	Gyan Pvt. Ltd. reimburses tuition fee of Rs. 10,000 p.m. for education of Seema's son in JK School. There is no tie up between Gyan Pvt. Ltd. and JK School.

#	Taxable	Comment
1	-	Exempt
2	-	Exempt up to 1,000 p.m. per child.
3	12,000	18,000 (@ 1,500 p.m.) – 6,000 (@ 500 p.m.) is taxable. As per the alternate view, 6,000 (@ 1,500 p.m. – 1,000 p.m. exemption) – 6,000 (@ 500 p.m.), i.e., Nil is taxable
4	1,20,000	Expenditure incurred by employer is taxable

#### ASSETS

**B55-57. USE OF MOVABLE ASSET** – Compute the taxable value of perquisite in the following cases for PY 2022-23.

#	Case
1	Raghav is given a laptop by his employer on 1 May 2022. Employer purchased laptop in 2020 for Rs. 50,000. Raghav uses laptop for official and personal purposes.
2	Raghav is given a mobile phone by his employer on 1 October 2022. He uses it for making official and personal calls. Employer purchased the mobile in 2021 for Rs. 30,000.
3	The employer hired a TV for Rs. 2,000 p.m. and gave it to Raghav on 1 January 2023 for use at home. Raghav pays Rs. 500 p.m. on this account.

■ Answer: 1. Exempt; 2. 1,500 (10% p.a. of Rs. 30,000 for 6 months); 3. 4,500 (1,500 p.m. (2,000 – 500) for 3 months)

**B58. TRANSFER OF MOVABLE ASSET** – Jaggi is employed with Jag Ltd. During the PY 2022-23, Jag Ltd. sold a laptop, car and washing machine to Jaggi on 1 November 2022. These assets were used by Jag Ltd. since the date of purchase. Compute the taxable value of perquisite basis the following details.

Particulars	Laptop	Car	WM
Cost to Jag Ltd.	50,000	5,00,000	30,000
Date of purchase	15 June 2021	15 June 2020	15 June 2019
Sale price	Free	50,000	22,000

#### Computation of taxable value of perquisite

Particulars	Laptop	Car	WM
Actual cost	50,000	5,00,000	30,000
Less: Depreciation for every completed year of use (see Note)	(25,000)	(1,80,000)	(9,000)
Less: Amount paid by Jaggi	-	(50,000)	(22,000)
<b>Taxable value of perquisite</b>	<b>25,000</b>	<b>2,70,000</b>	<b>Nil</b>

Note:

Depreciated value	Laptop	Car	WM
Completed years of use	1 year (15.6.21 to 1.11.22)	2 years (15.6.20 to 1.11.22)	3 years (15.6.19 to 1.11.22)

Rate of depreciation	50% on reducing balance	20% on reducing balance	10% on SLM
Depreciation	25,000 (50% of 50,000)	1,00,000 for 1 <sup>st</sup> year (20% of 5 lakh) + 80,000 (20% of 4 lakh) = 1,80,000	10% of 30,000 for 3 years = 9,000

### OFFICE SUPPORT

**B59. SPECIAL ALLOWANCES** – Determine taxability of the following allowances provided to Mr. X, employed with Z India Ltd.

#	Allowance	Amount	Spend details
1	Lunch allowance	500 p.m.	10,000 spent on lunch
2	Helper allowance	3,000 p.m.	Helper employed on a salary of 2,500 p.m. to assist family at home
3	Uniform allowance	20,000	25,000 (out of which 10,000 spent in purchasing school uniform of children)

■ Answer: 1. 6,000 - Fully taxable; 2. 36,000 - Expense not for official duty; 3. 5,000 - Official spend of 15,000 is exempt

**B60. F&B** – Shaily was employed with JK Ltd. during the PY 2022-23. During the year, JK Ltd. spent Rs. 10,000 on free tea, coffee and snacks provided to Shaily in office during working hours. She was also provided subsidized lunch in office for 200 days @ Rs. 20 per meal, which costed Rs. 100 per meal to the employer. She worked for 15 days in a remote area where she was provided free meals during working hours costing Rs. 200 per meal. Compute the taxable value of perquisites.

Computation of taxable value of perquisite

Case	Taxable	Comment
Free, tea, coffee, snacks in office during working hours	-	Exempt
Subsidized lunch in office	6,000	200 × (100 cost – 50 exempt – 20 recovered)
Meals in remote area	-	Exempt
	<b>6,000</b>	

### FINANCIAL INCENTIVES

**B61-64. LOAN** – Compute the taxable perquisite in the following cases where Mr. Raman has received loan facility from Growth Ltd., his employer, during the PY 2022-23.

#	Case
1	Growth Ltd. provides interest-free loans of Rs. 3,000, Rs. 10,000 and Rs. 7,000 during the PY, for personal purposes.
2	Growth Ltd. provides a loan of Rs. 50,000 at interest rate of only 1% p.a. for treatment of Mrs. Raman for a disease prescribed under Rule 3A.
3	Growth Ltd. provides interest-free loan of Rs. 1 lakh on 1 April 2022 for purchase of consumer durables. SBI lending rate on 1 April 2022 is 15% for consumer loans. Loan is outstanding as on 31 March 2023.
4	Growth Ltd. provides housing loan on 1 October 2022 of Rs. 10 lakh at 3% interest rate. SBI lending rate on 1 April 2022 is 10% for housing loans. Loan remains unpaid for PY 2022-23.

#	Taxable	Comment
1	-	Aggregate does not exceed 20,000
2	-	Exempt as loan is for medical treatment of prescribed disease for member of household, even if amount exceeds 20,000.
3	15,000	15% of 1 lakh for the year.
4	35,000	7% (10% - 3%) of 10 lakh for 6 months

**B65. LOAN** – Raman avails a car loan of Rs. 5 lakh from his employer during the PY 2022-23. Loan is given on 1 October 2022 at 6% rate of interest. Raman repays Rs. 25,000 towards principal on 1<sup>st</sup> of every month starting January 2023. SBI lending rate for car loan is 10% on 1 April 2022 and 11% on 1 October 2022. Compute the taxable value of perquisite.

■ Interest benefit = 10% SBI lending rate for same purpose loan on 1.4.2022 – 6% actual interest rate charged = 4%. Rs. 25,000 on account of principal is repaid on 1<sup>st</sup> of every month starting January 2023. Hence, we need to calculate the maximum outstanding monthly balances as given below:

Month	Maximum outstanding monthly balance, i.e., outstanding balance of loan as on the last day of each month
October 2022	5,00,000 – Nil = 5,00,000
November 2022	5,00,000 – Nil = 5,00,000

December 2022	5,00,000 – Nil = 5,00,000
January 2023	5,00,000 – 25,000 = 4,75,000
February 2023	4,75,000 – 25,000 = 4,50,000
March 2023	4,50,000 – 25,000 = 4,25,000
<b>Total</b>	<b>28,50,000</b>

Taxable value = 4% (interest benefit) × 28,50,000 (aggregate of maximum outstanding monthly balances) × (1/12) = Rs. 9,500

**B66. LOAN** - Raman avails a loan of Rs. 5 lakh from his employer on 1 June 2022 for medical treatment of his wife for cancer (prescribed disease) at 5% interest. He repays Rs. 20,000 towards principal every month on 10<sup>th</sup>. Mrs. Raman receives Rs. 3 lakh as claim from medical insurance company on 5 January 2023. Compute the value of taxable perquisite in the hands of Raman for PY 2022-23. SBI lending rate as on 1 April 2022 for same purpose is 15%.

■ Loan for medical treatment of prescribed disease for member of household is exempt. However, exemption does not apply to so much of the loan as is reimbursed under medical insurance scheme. Thus, perquisite is exempt from June to Dec 2022. Medical reimbursement of Rs. 3 lakh is received on 5.1.2023. Computation of taxable perquisite for January to March 2023 is as below:

Interest benefit = 15% SBI lending rate for same purpose loan on 1.4.2022 – 5% actual interest rate charged = 10%.

Month	Maximum outstanding monthly balance, i.e., outstanding balance of loan as on the last day of each month
January 2023	3,00,000 – 20,000 = 2,80,000
February 2023	2,80,000 – 20,000 = 2,60,000
March 2023	2,60,000 – 20,000 = 2,40,000
<b>Total</b>	<b>7,80,000</b>

Taxable value = 10% (interest benefit) × 7,80,000 (aggregate of maximum outstanding monthly balances) × (1/12) = Rs. 6,500.

**B67. ESOP** – SAP India Ltd. allotted 2,000 sweat equity shares to Madhav in June 2022. Allotment price of shares was Rs. 500 per share. Fair market value of the shares was Rs. 1,000 per share on the date of exercise of option by Madhav. Compute the perquisite value of sweat equity shares.

■

Taxable value of perquisite

Particulars	Amount
FMV of 2,000 sweat equity shares on the date of exercise of option @ 1,000 each	20,00,000
Less: Amount recovered from Madhav @ 500 per share	(10,00,000)
<b>Value of perquisite</b>	<b>10,00,000</b>

**B68-71. GIFT** – Discuss the taxability of perquisite in the following cases for the PY 2022-23.

#	Case
1	Ganga received gift voucher worth Rs. 3,000 from her employer on completing 10 years of service and a gift token worth Rs. 1,500 on her birthday
2	During the PY, Ganga received gift voucher worth Rs. 3,000 from her employer on completing 10 years of service and a gift token worth Rs. 2,500 on her birthday
3	During the PY, Ganga received gift cheque of Rs. 4,000 from her employer on her anniversary as well as various gifts worth Rs. 10,000 from her office colleagues on this occasion.
4	During the PY, Ganga received a wrist watch worth Rs. 4,000 from her employer on her birthday along with cash gift of Rs. 2,000.

■

#	Taxable	Comment
1	-	Aggregate is less than 5,000. Hence, not taxable.
2	5,500	Aggregate is not less than 5,000. Hence, taxable. Alternatively, Rs. 500 (5,500 – 5,000 exempt) can be stated as taxable with a note in the answer.
3	4,000	Cash gift is fully taxable. Gift from colleagues is not perquisite but covered in terms of section 56(2)(x) under the head IFOS (refer para 172 of Concepts Book)
4	2,000	Cash gift is fully taxable. Value of watch is < 5,000, hence, not taxable.

### DEDUCTIONS U/S 16

**B72-73. DEDUCTIONS U/S 16** – Compute the income taxable under the head 'Salaries' for the AY 2023-24 in case of Rahul from the following particulars.

Particulars	Employer is CD Pvt. Ltd.	Employer is State Government
Basic salary	2,00,000	48,000
Dearness allowance	50,000	-
Commission based on turnover	60,000	-
Entertainment allowance	12,000	4,000
Taxable value of residential accommodation	35,000	-
Professional tax paid during the PY 2022-23	2,500 (out of which 1,500 paid by employer)	2,500 (out of which 1,500 paid by employer)

■  
Computation of income taxable under the head 'Salaries'

Particulars	CD Pvt. Ltd.	State Govt
Basic salary	2,00,000	48,000
Dearness allowance	50,000	-
Commission	60,000	-
Entertainment allowance	12,000	4,000
Taxable value of residential accommodation	35,000	-
Professional tax paid by employer	1,500	1,500
Gross salary	3,58,500	53,500
Less: Deductions u/s 16:		
• Standard deduction u/s 16(ia)	(50,000)	(50,000)
• Entertainment allowance u/s 16(ii)= Lower of (a) allowance received (4,000), (b) statutory amount (5,000), (c) 20% of basic salary (9,600). Only for Government employee.	-	(4,000)
• Professional tax paid: u/s 16(iii)	(2,500)	(2,500)
<b>Income from salary</b>	<b>3,06,000</b>	<b>Nil</b>

**COMPREHENSIVE QUESTIONS**

**B74 – CA 2021(DEC)** - Mr. Joseph a resident aged 33 years is a State Government employee at Bangalore. He has the following receipts from his employer:

(a) Basic pay: Rs. 60,000 p.m.

(b) DA (forms part for retirement benefits): Rs. 6,000 p.m.

(c) Entertainment allowances: Rs. 500 p.m.

(d) House Rent Allowance: Rs. 15,000 p.m.

(e) Motor car for official and also for personal use (cubic capacity of engine does not exceed 1.6 litres and expenses are met by the employer).

He provides the following information also:

(i) He had paid a rent of Rs. 16,000 p.m. for his accommodation at Bangalore.

(ii) He contributes Rs. 5,000 towards recognized provident fund on 15.03.2022.

(iii) Due to COVID-19, work at home facility was allowed by Karnataka Government w.e.f. 1.10.2022. He went back to Cochin and vacated the house at Bangalore and also motor car.

(iv) Professional tax paid – Rs. 2,000 (50% was paid by employer)

(v) He has no other income.

Compute the income chargeable to Mr. Joseph under the head "income from salary" for A.Y. 2023-24.

■  
Computation of income chargeable to Mr. Joseph under the head "income from salary" for A.Y. 2023-24

Particulars		Rs.
Basic pay @ 60,000 p.m.		7,20,000
DA @ 6,000 p.m.		72,000
Entertainment allowance @ 500 p.m.		6,000
House Rent Allowance @ 15,000 p.m.	1,80,000	
Less: Exempt u/s 10(13A) = Lower of following (calculations made for 6 months till house at Bangalore occupied and rent paid):		

• HRA received @ 15,000 p.m. = 90,000		
• Rent paid – 10% of salary = 96,000 (@ 16,000 p.m.) – 39,600 (10% of 3,96,000) = 56,400. Salary = Basic of 3,60,000 + DA of 36,000 + Commission based on fixed % of turnover Nil = 3,96,000.		
• 40% of salary = 40% of 3,96,000 = 1,58,400	(56,400)	
		1,23,600
Motor car: Use is mixed, cc is up to 1.6 litres, car is owned and R&M expenses are met by employer: Value = 1,800 p.m. for 6 months of use.		10,800
Employee's contribution to RPF: Not taxable as salary		-
Professional tax paid by employer		1,000
Gross salary income		9,33,400
Less: Deductions u/s 16:		
Standard deduction		(50,000)
Entertainment allowance = Lower of (a) 20% of basic salary being 1,44,000, (b) 5,000, (c) allowance of 6,000		(5,000)
Professional tax paid		(2,000)
<b>Income chargeable to tax under the head 'Salaries'</b>		<b>8,76,400</b>

**B75 – CA 2020(NOV)** - Rohan is a Finance Manager in Surya Ltd. He gives you the following information. Compute his income chargeable under the head Salary for AY 2023-24.

- Housing loan @ 5% p.a. provided by Surya Ltd., amount outstanding as on 1.4.2022 is Rs. 15 lakh. Rs. 25,000 is paid by Rohan every month towards principal. The lending rate of SBI for similar loan as on 1.4.2022 was 8%.
- Rs. 20,000 incurred by the employer Surya Ltd. towards premium for health insurance scheme approved by IRDA for Rohan.
- Received Rs. 15,000 as gift voucher on the occasion of his marriage anniversary from Surya Ltd.
- Surya Ltd. allotted 1,000 sweat equity shares in August, 2022. The shares were allotted at Rs. 415 per share and the fair market value on the date of exercising the option by Rohan was Rs. 700 per share.
- He was provided with furniture acquired during September 2018. The furniture is used at his residence for personal purpose. The actual cost of the furniture was Rs. 2,10,000. On 31.3.2023, the company offered the furniture to him at free of cost. No amount was recovered from him towards the furniture till date.
- Received Rs. 15,000 towards entertainment allowance.
- Basic salary is Rs. 75,000 per month.

■  
Computation of income chargeable under the head Salary for AY 2023-24

Particulars	Rs.
Basic salary	9,00,000
Entertainment allowance	15,000
Housing loan ( <b>Note 1</b> )	40,125
Health insurance premium : Not taxable as perquisite	-
Gift voucher: Fully taxable since value is ≥ Rs. 5,000. As per the alternate view, excess over Rs. 5,000 can also be taken as taxable value.	15,000
Sweat equity shares: FMV on date of exercise of option – Amount actually paid = 1,000 × (700 – 415)	2,85,000
Use of furniture: 10% p.a. of actual cost of Rs. 2,10,000 during PY 2022-23	21,000
Transfer of furniture: Actual cost Rs. 2,10,000 – Rs. 84,000 being depreciation @ 10% on SLM basis for 4 years (completed years of use)	1,26,000
Gross salary	14,02,125
Less: Deductions u/s 16	
• Standard deduction u/s 16(ia)	(50,000)
• Entertainment allowance: Deduction allowed only to Government employee	-
<b>Income under the head 'Salary'</b>	<b>13,52,125</b>

**Note 1: Housing loan**

Perquisite is taxable since amount of loan is > Rs. 20,000. Value = 3% interest benefit (8% - 5%) × maximum outstanding monthly balance = 3% × 1,60,50,000 (see below) / 12 = 40,125. Monthly date of repayment is not given. It is assumed that outstanding balance on the last day of each month is after payment of instalment for that month.

Month	Maximum outstanding monthly balance, i.e., outstanding balance of loan as on the last day of each month
April 22	14,75,000
May 22	14,50,000
June 22	14,25,000
July 22	14,00,000
Aug 22	13,75,000
Sep 22	13,50,000
Oct 22	13,25,000
Nov 22	13,00,000
Dec 22	12,75,000
Jan 23	12,50,000
Feb 23	12,25,000
Mar 23	12,00,000
<b>Total</b>	<b>1,60,50,000</b>

**B76. CA2019(NOV)** – Swaraj has provided the following particulars for the year ended 31.3.2023:

1. He retired on 31.12.2022 at the age of 58, after putting in 25 years and 9 months of service, from a private company in Delhi.
2. He was paid a salary of Rs. 25,000 p.m. and HRA of Rs. 6,000 p.m. He paid rent of Rs. 6,500 p.m. during his tenure of service.
3. On retirement, he was paid gratuity of Rs. 3,50,000. He was covered by the Payment of Gratuity Act, 1972. He had not received any other gratuity at any point of time earlier, other than this gratuity.
4. He had accumulated leave of 375 days during the period of his service. This was encashed by him at the time of his retirement. A sum of Rs. 3,15,000 was received by him in this regard. Employer allowed 30 days leave per annum.
5. The company presented him with a gift voucher of Rs. 4,500 on his retirement. His colleagues also gifted him a mobile phone worth Rs. 55,000 from their own contribution.

You are requested to compute his income from salary for AY 2023-24.

■  
Computation of income under the head 'Salaries' of Swaraj for AY 2023-24

Particulars	Rs.	Rs.
Basic salary @ 25,000 p.m. for 9 months		2,25,000
HRA @ 6,000 p.m. for 9 months	54,000	
Less: Exempt u/s 10(13A) = Lower of:		
A: HRA received = 54,000		
B: Rent paid – 10% of salary = 58,500 (@ 6,500 p.m. for 9 months) – 22,500 (10% of 2,25,000 basic) = 36,000		
C: 50% of salary = 50% of 2,25,000 = 1,12,500	(36,000)	
		18,000
Gratuity	3,50,000	
Less: Exempt u/s 10(10) = Lower of:		
A: Gratuity received = 3,50,000		
B: Statutory limit = 20,00,000		
C: 15 days salary for each year of service (period in excess of 6 months taken as one year) = $(15/26) \times 25,000$ (basic last drawn) $\times 26$ years = 3,75,000	(3,50,000)	
		-
Leave encashment	3,15,000	
Less: Exempt u/s 10(10AA) = Lower of:		
A: Leave encashment received = 3,15,000		
B: Statutory limit = 3,00,000		
C: 10 months average salary = $10 \times 25,000 = 2,50,000$		
D: Leave credit (months) $\times$ Average salary = $(375 \text{ days} / 30) \times 25,000 = 3,12,500$	(2,50,000)	
		65,000
Gift voucher: Exempt as value is < 5,000		-
Gift of mobile phone: Not covered under the head 'Salaries' as not received from employer		-



Gross salary	3,08,000
Less: Standard deduction u/s 16(ia)	(50,000)
<b>Income under the head 'Salaries'</b>	<b>2,58,000</b>

**B77. CA2018(NOV) – Nandini, a resident individual, aged 48 years, is an assistant manager of Dye Hard Ltd. She was appointed on 1.6.2020 at a salary of Rs. 32,000 p.m. During the PY 2022-23, she received the following amounts from her employer:**

- Dearness allowance (10% of basic pay, which forms part of salary for retirement benefits).
- Bonus for PY 2021-22 amounting to Rs. 32,000 was received on 1.10.2022.
- Fixed medical allowance of Rs. 20,000 for meeting medical expenditure.
- She was also reimbursed the medical bill of her father-in-law dependent on her, amounting to Rs. 3,000.
- Nandini was provided:
  - a laptop, both for official and personal use. Laptop was acquired by the company on 1.6.2020 at Rs. 15,000;
  - a domestic servant at a monthly salary of Rs. 1,000 which was reimbursed by her employer.
- Dye Hard Ltd. allotted 500 equity shares in the month of December 2022 @ Rs. 150 per share against the fair market value of Rs. 250 per share on the date of exercise of option by Nandini. The fair market value was computed in accordance with the method prescribed under the Act.
- Professional tax of Rs. 2,500 (out of which Rs. 1,800 was paid by the employer).

Compute the total income of Nandini for AY 2023-24 (assume that Nandini pays tax on receipt basis).

■  
Computation of total income of Nandini for AY 2022-23

Particulars	Rs.
Basic salary @ 32,000 p.m.	3,84,000
Dearness allowance @ 10% of basic pay	38,400
Bonus: Taxable assuming it was not subject to tax in PY 2021-22	32,000
Fixed medical allowance: Taxable	20,000
Medical bill of father in law: Taxable; father in law is not included in meaning of family	3,000
Use of laptop: Exempt	-
Domestic servant @ 1,000 p.m.	12,000
Value of equity shares = 500 shares @ Rs. 100 per share (FMV on date of exercise of option Rs. 250 – Amount paid Rs. 150)	50,000
Professional tax paid by employer	1,800
Gross salary	5,41,200
Less: Deductions u/s 16:	
• Standard deduction	(50,000)
• Professional tax paid	(2,500)
<b>Total income</b>	<b>4,88,700</b>

**B78. CA2018(NOV), 2011(NOV) – Janakaraj, employed as General Manager in Rajus Refractories Pvt. Ltd., furnishes you the under mentioned information for the year ended 31.3.2023:**

- Basic salary up to 30.11.2022 Rs. 70,000 p.m. Basic salary from 1.12.2022 Rs. 80,000 p.m. Salary is due and paid on the last day of every month.
- Dearness allowance @ 50% of basic salary (not forming part of salary for retirement benefits).
- Bonus equal to one month salary. This was paid in November 2022 on basic salary plus dearness allowance applicable for that month.
- Contribution of employer to recognized provident fund account of the employee @ 18% of basic salary. Employee also contributed an equivalent amount.
- Professional tax paid Rs. 6,000 of which Rs. 3,000 was paid by the employer.
- Facility of laptop was provided to Janakaraj for both official and personal use. Cost of laptop Rs. 65,000 and was purchased by the company on 11.10.2022.
- Leave travel concession given to Janakaraj, his wife and three children (one daughter aged 6 and twin sons aged 4). Cost of air tickets (economy class) reimbursed by the employer Rs. 20,000 for adults and lumpsum of Rs. 25,000 for three children. Janakaraj is eligible for availing exemption this year to the extent it is permissible under the Income Tax Act.

Compute taxable salary of Janakaraj.

■

## Computation of taxable salary of Janakaraj for AY 2023-24

Particulars	Rs.	Rs.
Basic salary = 70,000 p.m. for 8 months and 80,000 p.m. for 4 months		8,80,000
Dearness allowance @ 50% of basic salary		4,40,000
Bonus = 70,000 + 50% of 70,000		1,05,000
Employer's contribution to RPF @ 18% of 8,80,000	1,58,400	
Less: Exempt up to 12% of "Basic + DA if terms of employment provide + Commission based on fixed percentage of turnover" = 12% of 8,80,000	(1,05,600)	
		52,800
Profession tax paid by employer		3,000
Use of laptop: Exempt		-
LTC	45,000	
Less: Exempt = Economy class air fare (assumed it is for Air India for shortest route) for the entire family. Twins born after first child are considered as one child.	(45,000)	
		-
Gross salary		14,80,800
Less: Deductions u/s 16		
• Standard deduction		(50,000)
• Professional tax paid		(6,000)
<b>Taxable salary</b>		<b>14,24,800</b>

**B79. CA2018(MAY)** - Mr. Honey is working with a domestic company having a production unit in USA for last 15 years. He has been regularly visiting India for export promotion of company's product. He has been staying in India for at least 184 days every year. He submits the following information.

- Salary received outside India (for 6 months) Rs. 50,000 p.m.
- Salary received in India (for 6 months) Rs. 50,000 p.m.
- He has been given rent free accommodation in USA for which company pays Rs. 15,000 p.m. as rent, but when he comes to India, he stays in the guest house of the company. During this period he is given free lunch facility. During the PY company incurred expenditure of Rs. 48,000 on this facility.
- He has been provided a car of 2000 cc capacity in USA which is used by him for both office and private purposes. But when he is in India, the car is used by him and the members of his family only for personal purpose. The monthly expenditure of car is Rs. 5,000. The actual cost of car is Rs. 8 lakh.
- His elder son is studying in India for which his employer spends Rs. 12,000 per year whereas his younger son is studying in USA and stays in a hostel for which Mr. Honey gets Rs. 3,000 p.m. as combined allowance.
- The company has taken an accident insurance policy and a life insurance policy. During PY the company paid premium of Rs. 5,000 and Rs. 10,000, respectively.

Compute his taxable income from salary for AY 2023-24.

■ Residential status of Mr. Honey = Resident and ordinarily resident, since stay in India is  $\geq 182$  days during the PY and he is not a NR in 9 out of 10 preceding PYs and not in India for  $\leq 729$  days in the preceding 7 PYs. Thus, global income is taxable in India.

## Computation of taxable income from salary of Mr. Honey for AY 2023-24

Particulars	Rs.	Rs.
Salary @ 50,000 p.m.		6,00,000
<b>Children education and hostel allowance for younger son</b>		
• Amount received @ 3,000 p.m.	36,000	
• Less: Exemption = Nil since education and hostel outside India	Nil	36,000
<b>Perquisites</b>		
Rent free accommodation in USA = Lower of:		
• Lease rental: 15,000 $\times$ 12	1,80,000	
• 15% of salary (Basic 6,00,000 + Taxable allowance 36,000) = 15% of 6,36,000	95,400	95,400
Guest house in India: Not taxable since provided for stay when he visits India wholly for official purpose		-

Lunch facility: Taxable on assumption that value exceeds Rs. 50 per meal. Assuming 6 month stay in India during PY and 26 working days per month, Rs. 7,800 (50 per meal × 26 days × 6 months) is considered exempt. Taxable = 48,000 – 7,800.		40,200
Motor car in USA = 2,400 × 6, assuming expenses met by employer, car is self driven and it is used by Honey for 6 months while he is in USA.		14,400
Motor car in India (owned by employer):		
• 10% p.a. of 8 lakh of actual cost for 6 months in India	40,000	
• Running and maintenance expenses for 6 months @ 5,000 p.m. (assuming these are met by employer)	30,000	70,000
Education for elder son in India: Expenditure incurred by employer is taxable		12,000
Life insurance premium paid by employer: Taxable		10,000
Personal accident policy premium paid by employer: Not taxable		-
Gross salary		8,78,000
Less: Standard deduction		(50,000)
<b>Taxable salary</b>		<b>8,28,000</b>

*Mistake by students – Wrongly allowed exemption u/s 10(14) for allowance of education and hostel even when it is out of India.*

**B80. CA2017(NOV)** – *Jaya is the marketing manager in XYZ Ltd. She gives you the following particulars:*

- Basic salary Rs. 65,000 p.m.
- Dearness allowance Rs. 22,000 p.m. (30% is for retirement benefits)
- Bonus Rs. 17,000 p.m.

*Her employer has provided her with an accommodation on 1.4.2022 at a concessional rent. The house was taken on lease by XYZ Ltd. for Rs. 12,000 p.m. Jaya occupied the house from 1.11.2022. Rs. 4,800 p.m. is recovered from the salary of Jaya.*

*The employer gave her a gift voucher of Rs. 8,000 on her birthday. She contributes 18% of her salary (basic pay + DA) towards recognized provident fund and the company contributes the same amount.*

*The company pays medical insurance premium to effect insurance on the health of Jaya of Rs. 18,000.*

*Motor car owned by the employer (cubic capacity of engine exceeds 1.6 litres) provided to Jaya from 1.11.2022 which is used for both official and personal purposes. Repair and running expenses of Rs. 50,000 were fully met by the company. The motor car was self driven by the employee.*

*Compute the income chargeable to tax under the head 'Salaries' in the hands of Jaya for AY 2023-24.*

■

*Computation of taxable income from salary of Jaya for AY 2023-24*

Particulars	Rs.	Rs.
Basic salary @ 65,000 p.m.		7,80,000
Dearness allowance @ 22,000 p.m.		2,64,000
Bonus @ 17,000 p.m.		2,04,000
Residential accommodation:		
• Value of rent free accommodation (for 5 months) = Lower of (a) lease rental Rs. 60,000 or (b) 15% of salary being 66,450 (basic 65,000 + 30% of DA being 6,600 + bonus 17,000 = 88,600 p.m. for 5 months = 4,43,000)	60,000	
• Less: Rent paid by Jaya @ 4,800 p.m.	(24,000)	
		36,000
Gift voucher: Fully taxable as it is ≥ 5,000. <sup>1</sup>		8,000
Employee's contribution to RPF: Not taxable		-
Employer's contribution to RPF = 18% of (basic + DA)	1,87,920	
Less: Exempt up to 12% of "Basic + DA if terms of employment provide + Commission based on fixed percentage of turnover" = 12% of 8,59,200 (7,80,000 + 79,200 being 30% of DA)	(1,03,104)	
		84,816
Medical insurance premium: Exempt		-
Motor car = 2,400 p.m. for 5 months		12,000
Gross salary		13,88,816
Less: Standard deduction u/s 16(ia)		(50,000)
<b>Taxable salary</b>		<b>13,38,816</b>

<sup>1</sup> Alternative, only value in excess of 5,000 can be said to be taxable.

**B81. CA2017(MAY)** – Nambi, a salaried employee, furnishes the following details for FY 2022-23:

Particulars	Rs.
Basic salary	6,00,000
Dearness allowance	3,20,000
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by employer	21,000
Profession tax (of this, 50% paid by employer)	7,000
Health insurance premium paid by employer	9,000
Gift voucher given by employer on his birthday	12,000
Life insurance premium of Nambi paid by employer	34,000
Laptop provided for use at home. Actual cost of laptop to employer. (Children of assessee are also using laptop at home)	30,000
Employer company owns a Tata Nano car, which was provided to assessee, both for official and personal use. No driver was provided (engine cubic capacity less than 1.6 litres)	
Annual credit card fees paid by employer (credit card is not exclusively used for official purposes; details of usage are not available)	2,000

You are required to compute the income chargeable under the head 'Salaries' for AY 2023-24.

■

*Computation of taxable income from salary of Nambi for AY 2023-24*

Particulars	Rs.
Basic salary	6,00,000
Dearness allowance	3,20,000
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by employer: Assumed treatment was not in a specified hospital	21,000
Profession tax paid by employer	3,500
Health insurance premium paid by employer: Exempt	-
Gift voucher given by employer on his birthday: Taxable as it is $\geq 5,000$ . <sup>2</sup>	12,000
Life insurance premium of Nambi paid by employer: Taxable	34,000
Laptop provided for use at home: Exempt	-
Motor car: Assuming running and maintenance born by employer: @ 1,800 p.m.	21,600
Annual credit card fees paid by employer: Fully taxable as details of official usage not available	2,000
Gross salary	10,71,600
Less: Deduction u/s 16:	
• Standard deduction	(50,000)
• Profession tax paid	(7,000)
<b>Taxable salary</b>	<b>10,14,600</b>

**B82. CA2014(NOV)** - Anand, an employee of XYZ Co. Ltd. at Mumbai and not covered by Payment of Gratuity Act, retires at age of 64 years on 31.12.2022 after completing 33 years and 7 months of service. At the time of retirement, his employer pays Rs. 20,51,640 as gratuity and Rs. 6,00,000 accumulated balance of recognized provident fund. He is also entitled for monthly pension of Rs. 8,000. He gets 75% of pension commuted for Rs. 4,50,000 on 1.2.2023. Compute the taxable salary for AY 2023-24 with the help of following information.

(a) Basic salary ( $80,000 \times 9$ )	7,20,000
(b) Bonus	36,000
(c) HRA ( $15,000 \times 9$ )	1,35,000
(d) Rent paid ( $10,000 \times 12$ )	1,20,000
(e) Employer contribution towards RPF	1,10,000
(f) Professional tax paid by Anand	2,000

Note: Salary and pension fall due on last day of each month.

■

<sup>2</sup> Alternatively, only value in excess of 5,000 can be taken to be taxable.

## Computation of taxable income from salary of Anand for AY 2023-24

Particulars	Amount
Basic salary	7,20,000
Bonus	36,000
HRA (Note 1)	1,17,000
Employer's contribution to RPF in excess of 12% of salary = 1,10,000 – 86,400 (12% of 7,20,000)	23,600
Gratuity (Note 2)	7,31,640
Accumulated balance of RPF: Exempt since service has been rendered continuously for more than 5 years	-
Uncommuted pension is taxable = (8,000 × 1 month) + (2,000 (25% of pension) × 2 months)	12,000
Commuted pension (Note 3)	2,50,000
Gross salary	18,90,240
Less: Standard deduction	(50,000)
Less: Professional tax paid	(2,000)
<b>Taxable salary</b>	<b>18,38,240</b>

## Note 1 - HRA

Computation	Amount	Amount
HRA received		1,35,000
Less: Exempt u/s 10(13A) = Lower of:		
A: HRA received	1,35,000	
B: Rent paid – 10% of salary = 90,000 for 9 months – 10% of 7,20,000 (basic for 9 months)	18,000	
C: 50% of salary	3,60,000	(18,000)
<b>Taxable HRA</b>		<b>1,17,000</b>

## Note 2 - Gratuity

Computation	Amount	Amount
Gratuity received		20,51,640
Less: Exempt u/s 10(10) = Lower of:		
A: Gratuity received	20,51,640	
B: Statutory limit	20,00,000	
C: Half month salary for each completed year of service = (Average salary of 10 months preceding retirement ÷ 2) × 33 years = (80,000 basic ÷ 2) × 33	13,20,000	(13,20,000)
<b>Taxable gratuity</b>		<b>7,31,640</b>

## Note 3 - Pension

Computation	Amount
Commuted pension received	4,50,000
Less: Exempt u/s 10(10A) = $\frac{1}{3} \times (4,50,000 \text{ commuted pension} \div 75 \text{ commutation \%}) \times 100$	(2,00,000)
<b>Taxable amount</b>	<b>2,50,000</b>

**B83. CA2013(NOV), 2010(NOV)** – From the following details, find out the salary chargeable to tax of Anand for AY 2023-24:

Anand is a regular employee of Malpani Ltd. in Mumbai. He was appointed on 1.3.2022 in the scale of 25,000 – 2,500 – 35,000. He is paid dearness allowance (which forms part of salary for retirement benefits) @ 15% of basic pay and bonus equivalent to one and a half month basic pay as at the end of the year. He contributes 18% of his salary (basic pay and DA) towards RPF and company contributes the same amount.

He is provided free housing facility taken on rent by company at Rs. 15,000 p.m. He is also provided with following facilities.

- Facility of laptop costing Rs. 50,000.
- The company reimbursed medical treatment bill of Rs. 25,000 of his daughter, who is dependent on him.
- Monthly salary of Rs. 2,000 of a house keeper is reimbursed by company.
- He is getting telephone allowance @ Rs. 1,000 per month.
- Conveyance allowance of Rs. 1,000 per month is given by company towards actual reimbursement.
- Gift voucher of Rs. 4,700 was given on occasion of his marriage anniversary.
- Company pays medical insurance premium to effect an insurance on the health of Anand of Rs. 12,000.
- He is provided personal accident policy for which premium of Rs. 5,000 is paid by the company.

9. Motor car running and maintenance charges fully paid by employer of Rs. 36,600. Motor car is owned and driven by Anand. Engine cc is below 1.60 litres. Motor car is used for both official and personal purpose.
10. Value of free lunch provided during office hours is Rs. 2,200.

■

*Computation of taxable income from salary of Anand for AY 2023-24*

Particulars	Rs.	Rs.
Basic salary = 25,000 p.m. for 11 months + 27,500 p.m. for 1 month		3,02,500
Dearness allowance = 15% of basic pay		45,375
Bonus = 1.5 × 27,500		41,250
Own contribution to RPF is not taxable		-
Employer's contribution to RPF = 18% of 3,47,875 (basic + DA)	62,618	
Less: Exempt = 12% of salary (12% of 3,47,875 being basic + DA forming part of salary for retirement benefits)	(41,745)	
		20,873
Rent free residential accommodation = Lower of:		
• Lease rent @ 15,000 p.m.	1,80,000	
• 15% of salary: Salary = Basic 3,02,500 + DA forming part of salary 45,375 + Bonus 41,250 + Taxable allowances (Telephone allowance) 12,000 = 4,01,125.	60,169	60,169
Laptop: Exempt assuming facility is for use of laptop		-
Medical treatment bill of dependent daughter: Taxable assuming treatment was not in a specified hospital		25,000
House keeper: 2,000 p.m. is taxable		24,000
Telephone allowance is taxable		12,000
Conveyance allowance: Exempt as it is based on reimbursement of official expenses		-
Gift voucher: Exempt as it is < 5,000		-
Medical insurance premium: Exempt		-
Personal accident policy premium: Exempt		-
Motor car = Expenditure incurred by employer of 36,600 – 21,600 (@ 1,800 p.m.)		15,000
Free lunch: Exempt assuming it is not exceeding Rs. 50 per meal		-
Gross salary		5,46,167
Less: Standard deduction		(50,000)
<b>Taxable salary</b>		<b>4,96,167</b>

**B84. CA2008(NOV)** - Mr. M is an area manager of M/s N Steels Co. Ltd. During the FY 2022-23, he gets the following emoluments from his employer:

- (i) Basic salary up to 31.8.2022: Rs. 20,000 p.m.
- (ii) Basic salary from 1.9.2022 : Rs. 25,000 p.m.
- (iii) Transport allowance: Rs. 2,000 p.m.
- (iv) Contribution of employer to RPF @ 15% of basic salary and DA.
- (v) Children education allowance: Rs. 500 p.m. for two children
- (vi) City compensatory allowance: Rs. 300 p.m.
- (vii) Hostel expenses allowance: Rs. 300 p.m. for two children
- (viii) Tiffin allowance: Rs. 5,000 p.a. Actual expenses Rs. 3,700.
- (ix) Tax paid on employment: Rs. 2,500; paid by employer.

Compute taxable salary of Mr. M for AY 2023-24.

■

*Computation of taxable salary of Mr. M for AY 2023-24*

Particulars	Rs.	Rs.
Basic salary = 20,000 p.m. for 5 months + 25,000 p.m. for 7 months		2,75,000
Transport allowance		24,000
Contribution of employer to RPF: Taxable = 3% (15% - 12%) of 2,75,000		8,250
Children education allowance	6,000	
Less: Exempt 100 p.m. per child up to 2 children	(2,400)	

		3,600
City compensatory allowance		3,600
Hostel expenses allowance	3,600	
Less: Exempt 300 p.m. per child up to 2 children	(7,200)	
		-
Tiffin allowance: Fully taxable		5,000
Tax on employment paid by employer		2,500
Gross salary		3,21,950
Less: Deductions u/s 16:		
• Standard deduction		(50,000)
• Tax on employment paid		(2,500)
<b>Taxable salary</b>		<b>2,69,450</b>

**B85. MASTER QUESTION** - Mr. Jaggi, an employee of Central Government, retired from services on 31 December 2022 pursuant to opting for voluntary retirement scheme, after completing 20 years and 9 months of service. He had 5 years of service left. During the PY 2022-23, he drew the following emoluments.

Particulars	Amount
Basic salary	50,000 p.m.
Dearness allowance (75% forming part of pay for computing retirement benefits)	30,000 p.m.
Arrears of salary for earlier years consequent to revision in salary with retrospective effect	3,00,000
Commission (fixed)	50,000
General conveyance allowance (used to meet commuting expenses between office and residence)	3,000 p.m.
Helper allowance (salary paid my Mr. Jaggi to helper to assist him in official duties was Rs. 3,000 p.m.)	5,000 p.m.
Entertainment allowance	2,000 p.m.
Free supply of electricity at home. Government paid the bills.	50,000
Free holiday home facility, owned by Government and available uniformly to all employees, provided to Jaggi and his family while on holiday. Expenses borne by the employer.	10,000
Tea and snacks provided in office during working hours	6,000
Lunch facility provided in office. Amount spent by employer was Rs. 100 per meal for 175 meals provided to Mr. Jaggi during the year.	17,500
Employer paid bills for telephone at residence	25,000
Annual club fee reimbursed by the employer. Club was used by Mr. Jaggi for both personal and official purposes but details of official use are not available.	7,500
Employer paid fees for a training program which Jaggi attended on 15.5.2022 in order to improve his performance at office	9,000

Besides the above, a personal loan of Rs. 1,00,000 was provided to him on 1.4.2022 at 2% interest. Instalment of Rs. 20,000 became due on 25<sup>th</sup> of every month. Mr. Jaggi paid all instalments on time. SBI lending rate for personal loan on 1.4.2022 was 10%. Mr. Jaggi also received the following amounts upon his retirement.

Particulars	Amount
Gratuity	6,00,000
Pension (60% commuted on 1 March 2023 for Rs. 6 lakh)	10,000 p.m.
Leave encashment for 100 days of accumulated leave	2,00,000
Accumulated balance of statutory provident fund	7,50,000
Voluntary retirement compensation	15,00,000

Compute the taxable salary income of Mr. Jaggi for AY 2023-24.

**Computation of taxable salary income of Mr. Jaggi for AY 2023-24**

Amounts are computed based on 9 months of employment during PY 2022-23.

Particulars	Computation/Remarks	Rs.
Basic salary		4,50,000
Dearness allowance		2,70,000
Commission		50,000
Arrears of salary not taxed earlier		3,00,000

Gratuity	Exempt	-												
Uncommuted pension	10,000 for 2 months and 4,000 (after 60% commutation) for 1 month	24,000												
Commuted pension	Exempt	-												
Leave encashment	Exempt	-												
Payment from statutory PF	Exempt	-												
Voluntary retirement compensation	Exempt = Lower of: (a) Amount received Rs. 15 lakh (b) Statutory limit Rs. 5 lakh (c) 3 month salary × 20 years (completed years of service) = 2,17,500 × 20 = 43,50,000 (d) Salary × 60 months = 72,500 × 60 = 43,50,000. Salary = Basic 50,000 + DA(T) (75% of DA) 22,500 = 72,500 Taxable = 15,00,000 – 5,00,000	10,00,000												
General conveyance allowance		27,000												
Helper allowance	Taxable p.m. = 5,000 p.m. – 3,000 p.m. spend for official purpose	18,000												
Entertainment allowance	Taxable	18,000												
Free electricity	Taxable	50,000												
Free holiday home facility	Taxable	10,000												
Tea and snacks in office during working hours	Exempt	-												
Lunch facility in office	Rs. 50 (100 expenditure – 50 exempt) × 175 meals	8,750												
Telephone bills paid by employer	Exempt	-												
Club fee		7,500												
Fees for training program	Exempt	-												
Personal loan	Value = Interest benefit of 8% (10% - 2%) × maximum outstanding monthly balance = 8% × 2,00,000 / 12	1,333												
	<table border="1"> <thead> <tr> <th>Month</th> <th>Outstanding balance on last day</th> </tr> </thead> <tbody> <tr> <td>April 22</td> <td>80,000</td> </tr> <tr> <td>May 22</td> <td>60,000</td> </tr> <tr> <td>June 22</td> <td>40,000</td> </tr> <tr> <td>July 22</td> <td>20,000</td> </tr> <tr> <td><b>Total</b></td> <td><b>2,00,000</b></td> </tr> </tbody> </table>	Month	Outstanding balance on last day	April 22	80,000	May 22	60,000	June 22	40,000	July 22	20,000	<b>Total</b>	<b>2,00,000</b>	
Month	Outstanding balance on last day													
April 22	80,000													
May 22	60,000													
June 22	40,000													
July 22	20,000													
<b>Total</b>	<b>2,00,000</b>													
Gross salary		22,34,583												
Less: Deductions u/s 16:														
Standard deduction		(50,000)												
Entertainment allowance	Lower of (a) 20% of basic salary, i.e, 90,000, (b) Rs. 5,000, (c) Rs. 18,000	(5,000)												
<b>Taxable salary</b>		<b>21,79,583</b>												

**B86. MASTER QUESTION** - Suraj retired from the service of Saya Ltd. on 31.1.2023 after completing service of 15 years, 2 months, 12 days, as the HR manager. He was employed in Bangalore. The company was engaged in transport business. He received the following on his retirement:

1. Gratuity Rs. 7,00,000. Suraj was covered under Payment of Gratuity Act. He had received gratuity from his previous employer and at that time he had claimed Rs. 2,00,000 as exemption u/s 10(10).
2. Leave encashment of Rs. 2,50,000. He was entitled to 35 days leave for each completed year of service. During the service period, he had availed 280 days of leave while 50 leaves lapsed as per the service rules.
3. He was entitled to receive pension of Rs. 10,000 per month after retirement. He commuted 60% of pension on 1.3.2022 for Rs. 5,00,000.
4. Accumulated balance of recognized provident fund of Rs. 20,00,000.
5. He was using a car of engine cubic capacity 1,800, provided by Saya Ltd. along with the driver, since 1.3.2022, both for official and personal use of self and his family members. Official use was 40%. He was paying Rs. 1,500 p.m. towards the use. The employer sold the car to Suraj on 1.1.2023 for Rs. 2,50,000. The company had purchased the car for Rs. 7,00,000 on 1.7.2021. During the period of its use by Suraj, the company incurred Rs. 25,000 as expenses on running and maintenance.
6. He was also given a laptop which he was using for official as well as personal purposes at residence. The company transferred the laptop to him upon retirement free of cost. It had purchased the laptop on 15.3.2022 for Rs. 40,000.



7. His son used a motor cycle belonging to Saya Ltd. The company had purchased it for Rs. 60,000 on 1.9.2020. It was finally sold to him on 1.1.2023 for Rs. 20,000.
8. He was given a gift cheque of Rs. 2,500 and a gift voucher worth Rs. 6,000 by the employer. His friends and colleagues gifted him a mobile phone worth Rs. 30,000 from their own contribution

Following are the other particulars of the emoluments drawn by him during the PY 2022-23:

1. Basic salary of Rs. 50,000 p.m.
2. Dearness allowance @ 50% of basic pay (60% forming part of salary for retirement benefits).
3. Commission of Rs. 2,000 p.m.
4. Bonus of Rs. 10,000 p.m.
5. Overtime allowance of Rs. 2,000 p.m.
6. City compensatory allowance of Rs. 3,000 p.m.
7. Project allowance of Rs. 1,000 p.m.
8. Fixed medical allowance of Rs. 900 p.m.
9. Conveyance allowance of Rs. 1,500 p.m. for commuting between residence and office. Actual spend in commuting was Rs. 20,000.
10. Uniform allowance of Rs. 1,000 p.m. out of which he spent Rs. 5,000 on purchase of office uniform. The rest was spent on personal purposes.
11. Saya Ltd. contributed 15% of his basic salary and dearness allowance to recognized provident fund. Suraj made a matching contribution. Interest on the fund accrued @ 9% p.a.
12. Health insurance premium of Rs. 10,000 paid by Saya Ltd. on the health of Suraj.
13. Rs. 20,000 reimbursed for expenditure on medical treatment of Suraj's dependent father in an approved hospital for a prescribed disease.
14. Rs. 10,000 reimbursed for medical treatment of Suraj's son in a private clinic.
15. Premium on personal accident policy on life of Suraj of Rs. 4,000.
16. Life insurance premium for Suraj of Rs. 5,000.
17. He was in receipt of Rs. 6,000 p.m. as house rent allowance since 1.4.2022 which he used to pay rent of Rs. 7,500 p.m. for a house occupied by him from 1.5.2022. From 1.9.2022, in place of house rent allowance, he was provided with a residential accommodation owned by Saya Ltd, which he occupied from the same date. Furniture was also provided along with the accommodation which was purchased by Saya Ltd. for Rs. 1,20,000 on 10.1.2021. Suraj was charged Rs. 2,000 p.m. towards the accommodation. He vacated the accommodation on retirement.
18. Suraj proceeded on a vacation to Goa with his wife and three children (all minor) during June 2022. He had last availed of leave travel concession during the year 2019. The employer reimbursed him cost of air tickets of Rs. 10,000 per person by Jet Airways for the direct route. Economy class air fare for Air India was Rs. 7,000 per person.
19. Suraj had engaged a sweeper and a personal attendance whose salary of Rs. 4,000 p.m. was paid by Saya Ltd.
20. He visited Rajkot on an official tour during June 2022 for which he was provided travelling allowance of Rs. 20,000 and daily allowance of Rs. 5,000. Out of this, he spent Rs. 15,000 on travel for tour and Rs. 6,000 towards ordinary daily charges.
21. Saya Ltd. provided free education to his son in a school maintained and owned by the company in Bangalore. Cost of such education in a nearby school was Rs. 1,200 p.m. Suraj's daughter studied in a school in Delhi in respect of which the employer paid Rs. 500 p.m. and Rs. 1,000 p.m. as education allowance and hostel allowance, respectively.
22. Saya Ltd. allotted 500 equity shares on 1.10.2022 @ Rs. 100 per share. The fair market value, determined in the manner prescribed, was Rs. 250 on 15.9.2022 when Suraj exercised the option to purchase the shares. The fair market value was Rs. 260 on 1.10.2022.
23. Suraj and his family travelled on a personal journey using the transport facility of Saya Ltd. He paid a concessional fare of Rs. 2,000 for this journey against Rs. 15,000 that the company charged from the public.
24. The employer paid for credit card bills of Suraj amounting in all to Rs. 12,000 (including annual fee of Rs. 3,000). Some of these expenses were incurred for official reasons but no details were available in this respect.
25. Out of Rs. 2,500 profession tax paid during PY 2022-23, 50% was paid by the employer.

Besides the above, Suraj also received Rs. 1,20,000 as salary from JK & Co, a partnership firm, in which he was a partner. Compute his income chargeable under the head 'Salaries' for AY 2023-24.



*Computation of income chargeable under the head 'Salaries' for Suraj for AY 2023-24*

Amounts are computed based on 10 months of employment during PY 2022-23.

Particulars	Rs.	Rs.	Rs.
Basic salary @ 50,000 p.m.			5,00,000
Dearness allowance @ 50% of basic salary			2,50,000
Commission @ 2.000 p.m.			20,000
Bonus @ 10,000 p.m.			1,00,000
Suraj's contribution to recognized provident fund: Not taxable			-
Employer's contribution to recognized provident fund = 15% of 7,50,000 (basic + DA)		1,12,500	
Less: 12% of salary (basic + DA as per terms + Commission based on fixed % of turnover) = 12% of 6,50,000 (5,00,000 + 60% of 2,50,000 + Nil)		(78,000)	
			34,500
Interest on recognized provident fund: Exempt up to 9.5%			-
Salary from partnership firm: Not taxable under the head Salaries but under PGBP			-
Accumulated balance of recognized provident fund: Exempt as $\geq 5$ years of continuous service rendered			-
Gratuity		7,00,000	
Less: Exemption u/s 10(10) = Lower of the following:			
A: Amount actually received as gratuity	7,00,000		
B: Rs. 20 lakh – Rs. 2 lakh exempted earlier	18,00,000		
C: 15 days salary for each year of service			
o Salary = Basic salary + DA, last drawn = 75,000			
o 15 days salary = $75,000 \times (15 \div 26) = 43,269$			
o Years of service = 15 years (period up to 6 months ignored)			
o 15 days salary for each year of service = $43,269 \times 15$	6,49,035	(6,49,035)	
			50,965
Leave encashment		2,50,000	
Less : Exempt u/s 10(10AA): Lower of the following:			
A: Leave salary received	2,50,000		
B: Statutory limit	3,00,000		
C: 10 months $\times$ Average salary	6,50,000		
<i>Average salary</i> = [Basic + DA (as per terms) + Commission (based on % of turnover) of 10 months immediately preceding date of retirement] $\div 10 = 6,50,000$ (5,00,000 + 1,50,000 (60% of DA) + Nil) $\div 10 = 65,000$ .			
<i>10 months <math>\times</math> Average salary</i> = $10 \times 65,000$			
D: Leave credit (months) $\times$ Average salary	2,60,000	(2,50,000)	
<i>Leave credit</i> = (Leave entitlement (max 30 days for each completed year) - Leave availed/lapsed/encashed) $\div 30$ days = [(15 years $\times$ 30 days) – 280 availed – 50 lapsed] $\div 30 = 4$ months			
<i>Leave credit (months) <math>\times</math> Average salary</i> = $4 \times 65,000$			
			-
Uncommuted pension of 10,000 for 1 month and 4,000 (40% after commutation)) for 1 month			14,000
Commuted pension		5,00,000	
Less: Exempt = $1/3 \times (\text{Commutated pension received} \div \text{Commutation \%}) \times 100 = 1/3 \times (5,00,000 \div 60) \times 100$		(2,77,778)	
			2,22,222
<b>Allowances</b>			
Overtime allowance @ 2,000 p.m.			20,000
City compensatory allowance @ 3,000 p.m.			30,000
Project allowance @ 1,000 p.m.			10,000
Fixed medical allowance @ 900 p.m.			9,000
Conveyance allowance for commuting between residence and office @ 1,500 p.m.			15,000

Uniform allowance @ 1,000 p.m.		10,000	
Less: Official expense		(5,000)	
			5,000
House rent allowance received @ 6,000 p.m. for 5 months		30,000	
Less: Exempt u/s 10(13A) based on 4 months for which accommodation occupied = Lower of:			
A: Actual HRA received	24,000		
B: Rent paid – 10% of salary = 30,000 – 26,000. Salary p.m. = Basic 50,000 + 60% of DA 15,000 + Commission based on % of turnover Nil = 65,000. Salary for 4 months = 2,60,000.	4,000		
C: 40% of salary = 40% of 2,60,000	1,04,000	(4,000)	
			26,000
Travelling allowance for tour		20,000	
Less: Exempt: Cost of travel		(15,000)	
			5,000
Daily allowance for tour		5,000	
Less: Exempt: Ordinary daily charges		(6,000)	
			-
Education allowance @ 500 p.m.		5,000	
Less: Exempt @ 100 p.m.		(1,000)	
			4,000
Hostel allowance @ 1,000 p.m.		10,000	
Less: Exempt @ 300 p.m.		(3,000)	
			7,000
<b>Perquisites</b>			-
Health insurance premium for Suraj: Exempt			-
Medical treatment of dependent father: Exempt as expenditure is on member of family in approved hospital for prescribed disease			-
Medical treatment of son in a private clinic: Not exempt as treatment not in a specified hospital			10,000
Personal accident premium on life of Suraj: Exempt			-
Life insurance premium: Taxable			5,000
Leave travel concession received @ 10,000 for 5 persons		50,000	
Less: Exempt: Air India economy class air fare for 4 persons @ 7,000. Max 2 children born after 1.10.1998 are eligible.		(28,000)	
			22,000
Sweeper and personal attendant @ 4,000 p.m.			40,000
Free education for son in school maintained and owned by employer: Cost of such education in nearby school of 1,200 p.m. is taxable as it is > 1,000 p.m. <sup>3</sup>			12,000
Equity shares allotted at concessional rate: Value = 500 shares × 150 (FMV on date of exercise of option 250 – Amount paid 100)			75,000
Transport facility by employer for personal journey of self and member of household: Value = 15,000 – 2,000 paid by Suraj			13,000
Credit card expenses: Entire amount taxable in absence of details of official spend			12,000
Profession tax paid by employer			1,250
Motor car: Owned by employer and running and maintenance expenses borne by employer. Value = 3,300 p.m. (2,400 + 900) for 9 months of use			29,700
Transfer of motor car: Value = Actual cost		7,00,000	
Less: Depreciation for every completed year of use, i.e., 1 year, @ 20% on reducing balance method = 20% of 7,00,000		(1,40,000)	
Less: Amount paid by Suraj		(2,50,000)	
			3,10,000
Use of laptop: Exempt			-

<sup>3</sup> Alternatively, amount in excess of 1,000 p.m. can be taken to be the taxable value, i.e., @ 200 p.m.

Transfer of laptop: Value = Actual cost	40,000	
Less: Depreciation for every completed year of use, i.e., 0 year, @ 50% on reducing balance method	-	
Less: Amount paid by Suraj	-	
		40,000
Use of motor cycle by member of household = 10% p.a. of actual cost of 60,000 for 9 months	4,500	
Less: Amount paid by Suraj	-	
		4,500
Transfer of motor cycle: Value = Actual cost	60,000	
Less: Depreciation for every completed year of use, i.e., 2 years, @ 10% on SLM method	(12,000)	
Less: Amount paid by Suraj	(20,000)	
		28,000
Gifts:		
• Gift cheque	2,500	
• Gift voucher: Taxable as value is $\geq 5,000^4$	6,000	
• Gift from friends: Not covered under the head 'Salaries' but under IFOS	-	
		8,500
Residential accommodation for 5 months:		
• Salary for 5 months = Basic 2,50,000 + DA as per terms 75,000 + Bonus 50,000 + Commission 10,000 + taxable allowances (listed above under the heading 'Allowances') 1,31,000 = 5,16,000		
• Value of rent free accommodation = 15% of salary as Bangalore has population of > 25 lakh	77,400	
• Add: Value of furniture = 10% p.a. of 1,20,000 for 5 months	5,000	
• Less: Rent paid by Suraj @ 2,000 p.m.	(10,000)	
		72,400
<b>Gross salary</b>		<b>20,06,037</b>
Less: Deductions u/s 16		
• Standard deduction		(50,000)
• Profession tax paid		(2,500)
<b>Income chargeable under the head 'Salaries'</b>		<b>19,53,537</b>

# MCQ

## BASIC CONCEPTS

**M1.** Which of the following is taxable under the head 'Salaries'?

- (a) Salary forgone by an employee (b) Salary received by partner from the firm  
 (c) Remuneration received by director of a company in that capacity (d) Salary received by a foreign national and non-resident outside India for services rendered outside India

**M2.** Where DA is increased in January 2023 with retrospective effect from 1 April 2021, the increase is taxable in:

- (a) PY 2021-22 (b) PY 2022-23  
 (c) In the respective years to which it relates (d) Not taxable

**M3.** Loan or advance against salary, adjusted against salary over a period of time, is taxable as salary.

- (a) True (b) False

**M4.** During the PY 2022-23, Harsh, employed w.e.f. 1.3.2021 in the scale of 50,000 – 10,000 – 80,000, received the following: salary for the period April 2022 to March 2023, arrears of salary pertaining to PY 2019-20 not taxed then of Rs. 30,000 and salary of April 2023 received in March 2023. Salary becomes due on the last day of every month and is received on 5<sup>th</sup> of next month. Salary of

<sup>4</sup> Alternatively, amount in excess of 5,000 can be taken to be the taxable value, i.e., 1,000

April 2022 was paid in March 2022. Salary of January 2022, which could not be paid on 5.2.2022, was paid on 15.6.2022. Compute the gross salary income of Harsh for the AY 2023-24.

- (a) 7,60,000 (b) 7,10,000  
(c) 7,70,000 (d) 8,30,000

**M5.** Rohit, a non resident, has the following particulars of income for the PY 2022-23: Salary from a German company of Rs. 10 lakh received in Germany for services rendered in Germany. Salary from PQR Pvt. Ltd., an Indian company, of Rs. 15 lakh received in Germany for services rendered in Delhi. Salary of Rs. 3 lakh received from ABC & Co, a partnership firm, in which he is a partner. He instructed PQR Pvt. Ltd. to directly donate 10% of his salary to a charitable trust without paying him the amount. Rohit took an advance of Rs. 50,000 from PQR Pvt. Ltd. on 15.7.2022 to meet a personal exigency which was later adjusted against payment of salary during October 2022. Compute his gross taxable salary for AY 2023-24.

- (a) 15,00,000 (b) 25,00,000  
(c) 28,50,000 (d) 23,50,000

**M6.** Rajesh received the following emoluments during the PY 2022-23: Dearness allowance of Rs. 5,000 p.m. Overtime allowance of Rs. 3,000 p.m. underground mine allowance of Rs. 1,000 p.m. and tribal area allowance of Rs. 1,000 p.m in the State of Madhya Pradesh. How much amount is taxable as salary?

- (a) 96,000 (b) 1,20,000  
(c) 1,08,000 (d) 1,00,000

#### RETIREMENT BENEFITS

**M7.** Annuity is:

- (a) Fully taxable for all employees (b) Exempt for all employees  
(c) Partially taxable for all employees (d) Fully taxable only for specified employees

**M8.** What is included in 'salary' for a POGA employee for computing gratuity exemption?

- (a) DA but only that which forms part of pay for computing retirement benefits (b) All kinds of commission  
(c) Only basic salary (d) Basic salary and DA (whether or not forming part of pay for computing retirement benefits)

**M9.** What is not included in 'salary' for a non-POGA employee for computing gratuity exemption?

- (a) DA forming part of salary for computing retirement benefits (b) Commission based on fixed percentage of turnover  
(c) Fixed commission (d) Basic salary

**M10.** Raghav retired on 31.12.2022 after being employed for 10 years, 7 months and 10 days and received Rs. 5,00,000 as gratuity. During the PY, he drew Rs. 50,000 as basic salary, dearness allowance @ 80% of basic salary (50% of which was part of salary as per terms of employment), commission of Rs. 5,000 p.m. and taxable HRA of Rs. 20,000. Raghav had claimed exemption u/s 10(10) of Rs. 5 lakh at the time of receipt of gratuity from his previous employer. Compute his gross salary income. Raghav was covered under the Payment of Gratuity Act, 1972.

- (a) 8,75,000 (b) 8,00,000  
(c) 9,00,000 (d) 8,50,000

**M11.** Raghav retired on 31.1.2023 after being employed for 10 years, 7 months and 10 days and received Rs. 5,00,000 as gratuity. During the PY, he drew Rs. 50,000 as basic salary, dearness allowance @ 80% of basic salary (50% of which was part of salary as per terms of employment), commission of Rs. 5,000 p.m. and taxable HRA of Rs. 20,000. Raghav had claimed exemption u/s 10(10) of Rs. 10 lakh at the time of receipt of gratuity from his previous employer. He had also received Rs. 2 lakh of gratuity on 1.1.2022. Compute his gross salary income. Raghav was not covered under the Payment of Gratuity Act, 1972.

- (a) 11,00,000 (b) 10,80,000  
(c) 11,20,000 (d) 11,50,000

**M12.** Pension is fully exempt in which of the following cases?

- (a) Uncommuted pension for all employees (b) Commuted pension for Government employees  
(c) Commuted pension for all employees (d) Pension is taxable for all employees, whether or not commuted

**M13.** Rishabh, working with BCG Pvt. Ltd., retired from employment on 31.12.2022 and started receiving pension of Rs. 20,000 p.m. thereafter. He also received Rs. 10 lakh as gratuity, whole of which was exempt u/s 10(10). He commuted 50% of pension for Rs. 5 lakh on 1.2.2023. He earned taxable salary of Rs. 6 lakh from April 2022 to December 2022. Compute gross salary for AY 2023-24.

- (a) 8,26,667 (b) 8,90,000  
(c) 9,10,000 (d) 8,06,667

**M14.** Leave encashment is fully taxable in which of the following cases:

- |  |   |
|--|---|
| (a) Received any time by Government employee                     | (b) Received on retirement by non-Government employee |
| (c) Received while in employment by only non-Government employee | (d) Received while in employment by all employees     |

**M15.** Which of the following is true in case of leave salary exemption rules?

- |  |   |
|--|---|
| (a) Max 30 days for each completed year is taken to compute leave credit (fraction of year taken as full year) | (b) Salary means basic salary, DA if taken for computing retirement benefits and commission (fixed or based on % of turnover)               |
| (c) An assessee cannot claim exemption of more than Rs. 3 lakh during his lifetime                             | (d) Salary means basic salary, DA (whether or not taken for computing retirement benefits) and commission (fixed or based on % of turnover) |

**M16.** Juhi retired from URL Ltd. on 31.1.2023 after serving for 7 years, 5 months and 5 days. At the time of retirement, she was drawing basic salary of Rs. 1,00,000 p.m., dearness allowance of Rs. 40,000 p.m. (70% of which was part of salary as per terms of employment), commission of Rs. 4,000 p.m. and fixed medical allowance of Rs. 3,000 p.m. She was also entitled to 1% commission on turnover which was Rs. 20 lakh for the period April 2022 to January 2023. She received leave encashment of Rs. 3,00,000 on retirement. She was entitled to 32 days of leave every year. She availed 120 days of leave during the service period while 20 days lapsed as per leave rules. She encashed 10 days of leave for Rs. 50,000 on 1.6.2022. Compute her gross salary income for AY 2023-24.

- |               |               |
|---------------|---------------|
| (a) 15,30,000 | (b) 15,80,000 |
| (c) 15,40,000 | (d) 14,90,000 |

**M17.** What is taxable in case of recognized provident fund?

- |   |                                |
|---|--------------------------------|
| (a) Whole of employer's contribution and interest in excess of 9.5% | (b) Interest in excess of 9.5% |
| (c) Employer's contribution in excess of 12% of salary              | (d) Both b and c               |

**M18.** On retirement, Zahir received his own contribution of Rs. 10 lakh and interest thereon of Rs. 1 lakh along with employer's contribution of Rs. 10 lakh and interest thereon of Rs. 1 lakh from unrecognized PF. What amount is taxable as salary?

- |                        |             |
|------------------------|-------------|
| (a) Nothing is taxable | (b) 22 lakh |
| (c) 11 lakh            | (d) 10 lakh |

**M19.** On termination of service on 1.5.2022, after serving for 4 years, due to closure of employer's business, Zeeshan received his own contribution of Rs. 9 lakh (@ 13% of salary) and interest thereon of Rs. 1 lakh (@ 10%) along with employer's contribution of Rs. 9 lakh (@ 13% of salary) and interest thereon of Rs. 1 lakh (@ 10%) from recognized PF. Zeeshan's contribution did not exceed Rs. 2.5 lakh in any of the years. What amount, out of these receipts, is taxable as salary?

- |             |             |
|-------------|-------------|
| (a) 11 lakh | (b) 2 lakh  |
| (c) 10 lakh | (d) Nothing |

**M20.** Rajesh draws the following emoluments during the PY 2022-23: Basic salary of Rs. 60,000 p.m., dearness allowance of Rs. 40,000 p.m. (90% is part of salary for retirement benefits), commission of Rs. 5,000 p.m., taxable perquisites of Rs. 50,000, overtime allowance of Rs. 2,000 p.m. He and his employer, each contribute Rs. 15,000 p.m. towards recognized provident fund. Interest of Rs. 1,80,000 was credited for the PY 2022-23 in the RPF account @ 10%. Compute the gross salary income for AY 2023-24.

- |               |               |
|---------------|---------------|
| (a) 13,75,760 | (b) 13,79,000 |
| (c) 13,84,760 | (d) 13,70,000 |

**M20a.** Rishabh joined BCD Ltd. as its finance manager with effect from 1.4.2022 on a basic salary of Rs. 2,25,000 p.m. He received dearness allowance @ 12% of basic salary which formed part of retirement benefits. Rishabh contributed 11% of his basic salary and dearness allowance to the RPF account with BCD Ltd. making a matching contribution. Interest for the FY 2022-23 accumulated in the fund was Rs. 53,250. Rate of interest does not exceed 9.5%. Compute the amount of taxable interest for the AY 2023-24.

- |            |            |
|------------|------------|
| (a) 13,582 | (b) 16,849 |
| (c) 6,615  | (d) Nil    |

**M21.** During the PY 2022-23, employer of Raj contributed 10% of basic salary and DA to the approved superannuation fund (ASF). Raj contributed an equal amount. The fund gained accretion of Rs. 1,00,000 @ 7% on the total fund value. Compute the amount to be included in taxable salary income for AY 2023-24 on account of ASF. Raj drew Rs. 2,00,000 p.m. and Rs. 1,00,000 p.m. as basic salary and DA, respectively. 60% of DA was part of salary for computing retirement benefits. No contribution was made towards RPF and NPS.

- |              |              |
|--------------|--------------|
| (a) 4,60,000 | (b) 3,60,000 |
| (c) 3,12,000 | (d) Nil      |

**M22.** Which of the following amounts will be included in salary income of Krishna for the PY 2022-23, pertaining to his NPS account? No contributions are made to RPF and ASF.

- (a) Employer's contribution of Rs. 2 lakh and accretion thereon (b) Employee's contribution of Rs. 2 lakh and accretion thereon  
(c) Employer's contribution of Rs. 2 lakh (d) Employee's contribution of Rs. 2 lakh

**M23.** Employer of Gunjan contributes Rs. 2 lakh towards approved superannuation fund (@ 10% of salary), Rs. 2 lakh towards recognized provident fund (@ 10% of salary) and Rs. 2 lakh towards NPS (@ 10% of salary) during the PY 2022-23 Gunjan contributes an equal amount. Accretion is credited to the funds during the year. Which of the following statements is correct?

- (a) Rs. 6 lakh and accretion thereon is included in salary income (b) Rs. 4 lakh and interest thereon is included in salary income  
(c) Rs. 4 lakh is included in salary income (d) Rs. 2 lakh is included in salary income

**M24.** Rohan opted for retirement under the voluntary retirement scheme of PQR Ltd. which was framed in accordance with Rule 2B. He retired on 30.9.2022 after completing 10 years and 2 months of service and received Rs. 25 lakh as VRS compensation. During the PY he earned basic salary of Rs. 70,000 p.m., dearness allowance of Rs. 50,000 p.m. (40% was part of salary for retirement benefits), bonus of Rs. 1,00,000 and commission of Rs. 4,000 p.m. He still had 30 months of service left. Compute his gross salary income for AY 2023-24.

- (a) 28,44,000 (b) 8,44,000  
(c) 20,50,000 (d) 10,44,000

**M25.** Which of the following is true in case of retrenchment compensation?

- (a) Exemption cannot exceed Rs. 10 lakh (b) Exemption cannot exceed amount calculated under Industrial Disputes Act  
(c) It is exempt for all employees (d) It is exempt for Government employees

#### HEALTH & LIFE

**M26.** Vani, staying in Patna, receives the following benefits from her employer. Her taxable salary income for the PY 2022-23 is Rs. 10 lakh. Which of these is not exempt?

- (a) Medical allowance of Rs. 2,000 p.m. (b) Health insurance premium of Vani reimbursed by employer  
(c) Treatment of her married son in nursing home owned by employer (d) Reimbursement of expenses on treatment in Government hospital for her dependent mother

**M27.** Vidushi, staying in Shimla, receives the following benefits from her employer. Her taxable salary income for the PY 2022-23 is Rs. 10 lakh. Which of these is fully exempt?

- (a) Treatment of dependant sister by family doctor in his private clinic (b) Premium for personal accident policy for Vidushi paid by employer  
(c) Expenses for treatment of Vidushi's daughter and their stay expenses abroad incurred in excess of RBI limit. (d) Expenses for travel of Vidushi and her daughter for treatment of her daughter abroad.

**M28.** Life insurance premium of employee paid by employer is fully exempt.

- (a) True (b) False

**M29.** Rakul received the following benefits from her employer during the PY 2022-23: Fixed medical allowance of Rs. 2,500 p.m.; health insurance premium of Rs. 5,000 for Rakul's brother (not dependent on her); medical treatment of her son for Rs. 20,000 in hospital owned by employer; treatment of her father (not dependent on her) in a Government hospital for Rs. 30,000; treatment of her spouse in a private local clinic for Rs. 10,000; her treatment in an approved nursing home for a disease prescribed in Income Tax Rules for Rs. 50,000. Compute the taxable value of these benefits.

- (a) 70,000 (b) 45,000  
(c) 75,000 (d) 65,000

**M30.** Suresh is employed with JK Pvt. Ltd. During the PY 2022-23, he had to get his daughter treated for a disease in a hospital located in the USA. He incurred Rs. 3 lakh on travel, Rs. 2 lakh on stay and Rs. 4 lakh on medical treatment. He accompanied his daughter. He obtained RBI permission in respect of Rs. 4 lakh for treatment and stay. He was drawing annual salary of Rs. 12 lakh p.a. and had no other income during the PY. JK Pvt. Ltd. reimbursed the entire amount spent by Suresh abroad. What is the taxable value of medical benefits?

- (a) Nil (b) 3,00,000  
(c) 2,00,000 (d) 5,00,000

**HOUSING**

**M31.** HRA is eligible for exemption in which of the following cases?

- |                                       |  |
|---------------------------------------|--|
| (a) Employee is residing in own house | (b) Employee has not paid rent           |
| (c) Rent paid is up to 10% of salary  | (d) Rent paid is more than 10% of salary |

**M32.** Which of the following statements in respect of HRA is correct?

- |  |   |
|--|---|
| (a) Exemption cannot exceed 50% of salary for Mumbai, Kolkata, Delhi and Chennai                                   | (b) Salary means Basic + DA + Commission                            |
| (c) Salary is to be computed for the entire year irrespective of period of occupation of accommodation by employee | (d) Arrears and advance salary for another PY is included in salary |

**M33.** Shyamal stays in New Delhi. His basic salary is Rs. 10,000 p.m., DA (60% forms part of pay) is Rs. 6,000 p.m., HRA is Rs. 5,000 p.m. and he is entitled to commission of 1% on turnover achieved by him. He pays rent of Rs. 5,500 p.m. Turnover achieved by him during current year is Rs. 12 lakh. HRA exempt is:

- |            |            |
|------------|------------|
| (a) 48,480 | (b) 45,600 |
| (c) 49,680 | (d) 46,800 |

**M34.** Vasu is employed with BDM Pvt. Ltd. During the PY 2022-23, he was in receipt of basic salary of Rs. 40,000 p.m., DA of Rs. 20,000 p.m. (forming part of salary for retirement benefits), conveyance allowance of Rs. 5,000 p.m. for commuting between residence and office and HRA of Rs. 20,000 p.m. He was posted in Rajnagar from February to June 2022 where he stayed in his own house but he used the HRA to pay rent of Rs. 10,000 p.m. for his wife who was posted in Ludhiana. From July onwards, he was posted in Hyderabad where he stayed at his friend's house from July to September and, thereafter, in a rented house from October onwards for which he paid rent of Rs. 15,000 p.m. Compute his gross salary for AY 2023-24.

- |              |               |
|--------------|---------------|
| (a) 9.69,000 | (b) 9,66,000  |
| (c) 9,12,000 | (d) 10,12,000 |

**M35.** A private sector employee staying in an unfurnished house owned by employer is taxable in respect of the perquisite to the extent of:

- |  |                              |
|--|------------------------------|
| (a) License fee determined as per Government rules             | (b) Market rent of the house |
| (c) 7.5% of salary if house is in a town of population 10 lakh | (d) 24% of salary            |

**M36.** Mr. Sharma is provided with a furnished house in Chennai to reside by his employer. The house and the furniture are hired by his employer. Taxable value of the perquisite will be:

- |   |  |
|---|--|
| (a) 15% of salary + Furniture hire charges paid by employer | (b) Lease rent + furniture hire charges paid by employer                             |
| (c) Lower of lease rental or 24% of salary                  | (d) Lower of lease rental or 15% of salary + furniture hire charges paid by employer |

**M37.** Rajesh is provided with rent free furnished accommodation in Delhi which is owned by his employer in all respects. Value of perquisite is:

- |                   |  |
|-------------------|--|
| (a) 20% of salary | (b) 15% of salary + 10% p.a. of cost of furniture  |
| (c) 15% of salary | (d) 7.5% of salary + 10% p.a. of cost of furniture |

**M38.** Ramesh is provided with furniture of value Rs. 70,000 along with the house from February 2022, by his employer. Actual hire charges paid by employer for furniture is Rs. 5,000 p.a. Value of furniture to be included with value of unfurnished house for AY 2023-24 is:

- |            |            |
|------------|------------|
| (a) 5,000  | (b) 7,000  |
| (c) 10,500 | (d) 14,000 |

**M39.** Ruhi, a State Government employee, stayed in a house provided by the employer in Chennai (population 70 lakh). Furniture costing Rs. 5 lakh was also provided which was purchased by the employer in the PY 2018-19. During the PY 2022-23, she drew a basic salary of Rs. 90,000 p.m., DA (forming part of salary) of Rs. 50,000, HRA of Rs. 30,000 p.m. and taxable medical perquisites of Rs. 50,000. License fee of the house was determined at Rs. 20,000 p.m. Compute the gross salary of Ruhi for AY 2023-24.

- |               |               |
|---------------|---------------|
| (a) 24,46,000 | (b) 23,80,000 |
| (c) 23,30,000 | (d) 25,70,000 |

**M40.** Juhi, employed with Zen Ltd., is provided with a house owned by the employer in Faridabad (population 15 lakh) for which she pays Rs. 10,000 p.m. The company has also provided air conditioners which it has hired at Rs. 5,000 p.m. During the PY 2022-23, she drew a basic salary of Rs. 90,000 p.m., DA (50% forming part of salary) of Rs. 50,000, HRA of Rs. 30,000 p.m., commission of Rs. 10,000 p.m. and taxable perquisites (other than house) of Rs. 50,000. Market rent of the house is Rs. 50,000 p.m. Compute the gross salary of Juhi for AY 2023-24.

- |               |               |
|---------------|---------------|
| (a) 23,41,000 | (b) 24,29,000 |
| (c) 23,32,000 | (d) 23,36,000 |



**M41.** Which of the following is not the correct taxable value of perquisite?

- |  |   |
|--|---|
| (a) Amount paid by employer to the gas agency supplying gas to house of the employee   | (b) Electricity bill paid by employer to UPPCL, an electric distribution company, supplying electricity to house of the employee        |
| (c) Market rate of electricity for electricity provided by NTPC, an electricity generation company, in the house of its employee | (d) Electricity provided by NTPC, an electricity generation company, in the house of its employee valued at manufacturing cost per unit |

**M42.** Which of the following benefits provided to Jack by his employer does not have a taxable value?

- |  |  |
|--|--|
| (a) Free watchman at his residence (salary paid by employer) | (b) Reimbursement of salary of gardener employed by Jack                                     |
| (c) Servant allowance of Rs. 1,000 p.m.                      | (d) Personal attendant provided to children of Jack whose full salary is recovered from Jack |

### TRAVEL & CONVEYANCE

**M43.** Which of the following allowances does not have a taxable value in the hands of Raghu, employed with R Ltd.?

- |  |  |
|--|--|
| (a) Travelling allowance for tour, partly spent on cost of travel on official tour | (b) Daily tour allowance fully spent on ordinary daily charges incurred while on official tour |
| (c) Conveyance allowance spent on personal travel                                  | (d) Travel allowance fully spent on commuting between office and residence                     |

**M44.** Which of the following is correct in respect of transport allowance?

- |  |   |
|--|---|
| (a) Can be claimed as exempt up to Rs. 1,600 p.m.  | (b) Can be claimed as exempt up to Rs. 800 p.m. |
| (c) No separate deduction allowed. However, a standard deduction of Rs. 50,000 is allowed from gross salary income | (d) Can be claimed as exempt without any limit. |

**M45.** Ram, working in a transport system in Mumbai, receives allowance of Rs. 12,000 p.m. granted to meet his personal expenditure while on duty. Amount of allowance taxable is:

- |            |              |
|------------|--------------|
| (a) 43,200 | (b) 1,44,000 |
| (c) Nil    | (d) 1,20,000 |

**M46.** Rahul works with Shubh Pvt. Ltd. He draws the following emoluments during the PY 2022-23: Basic salary of Rs. 40,000 p.m.; conveyance allowance to visit client locations Rs. 10,000 p.m. (Rs. 80,000 spent on official travel); transport allowance to commute between residence and place of work Rs. 5,000 p.m., project allowance Rs. 20,000. During June 2022, he was sent on a 10 day official tour to Gujarat and was given Rs. 30,000 as travelling allowance and Rs. 2,000 per day as daily allowance. He spent Rs. 20,000 on travel and Rs. 15,000 on ordinary daily charges while on tour. Balance was spent on personal purposes. Compute his gross salary for AY 2023-24.

- |              |              |
|--------------|--------------|
| (a) 6,15,000 | (b) 5,55,000 |
| (c) 5,65,000 | (d) 5,75,000 |

**M47.** Yash, working in a transport system, received an allowance of Rs. 18,000 p.m. to meet his personal expenditure while on duty. Compute the taxable value of this receipt if he is not in receipt of any daily allowance from his employer.

- |              |            |
|--------------|------------|
| (a) Nil      | (b) 64,800 |
| (c) 2,16,000 | (d) 96,000 |

**M48.** In which of the following is Yana entitled to full exemption of LTC received from her employer and spent as per the following situations?

- |  |  |
|--|--|
| (a) On travel to Sri Lanka with her spouse and child by Air India in economy class.        | (b) On travel to Shimla with her spouse, dependent parents and 3 children (son 4 years and twins 6 years of age) |
| (c) On travel, stay and food to Goa by business class of Vistara with her spouse and child | (d) On travel to Chandigarh by train in AC 1 <sup>st</sup> class with spouse, dependent sister and 2 children.   |

**M49.** Chaitanya cannot avail LTC exemption for travel during the year 2021, if he has:

- |  |  |
|--|--|
| (a) Not availed LTC exemption so far since 2018              | (b) Since 2018, availed LTC exemption once in 2019   |
| (c) Since 2018, availed LTC exemption twice in 2018 and 2019 | (d) Since 2018, availed LTC exemption in 2018 (carry forward of previous block) and in 2019. |

**M50.** Ganesh is employed with BK Ltd. in Delhi. His emoluments for the PY 2022-23 comprised of basic salary of Rs. 50,000 p.m. and leave travel concession of Rs. 1,00,000. During June 2022, he proceeded to travel to Bangalore along with his spouse (working and independent), mother (working and independent) and three children (major twins and minor daughter; all born after 1.10.1998). Earlier to the PY 2022-23, he had availed LTC exemption during 2019 and 2020. He decided to travel via Nagpur by Indigo and spent

Rs. 15,000 per person. The Air India economy class fare for direct route was Rs. 10,000 per person. He spent Rs. 50,000 towards food and accommodation. Compute his gross salary for AY 2023-24.

- (a) 7,00,000 (b) 6,60,000  
(c) 6,40,000 (d) 6,50,000

**M51.** Resham is provided a car by his employer for official use. In which of the following situations will the perquisite be fully exempt?

- (a) He uses the car both for official and personal purposes (b) He uses the car only for official purpose but the employer does not maintain any log book  
(c) He uses the car only for official purposes and employer maintains the log book and issues certificate of official use to Resham (d) He uses the car only for official purposes and employer maintains the log book but does not issue certificate of official use to Resham

**M52.** What will be the value of perquisite per month, where Resham is provided a car throughout the year by his employer purely for personal use, which was purchased by the employer 3 years back for Rs. 6 lakh, running and maintenance expenses of Rs. 60,000 are borne equally by Resham and employer, driver is provided by employer which pays salary of Rs. 10,000 p.m., car is used by spouse of Resham and employer recovers Rs. 5,000 p.m. from Resham for this facility?

- (a) 12,500 (b) 10,000  
(c) 15,000 (d) Nil

**M53.** Rs. 2,700 p.m. will be the value of perquisite of motor car provided to Harsh by his employer where:

- (a) He uses the car for both personal and official use, the car is 2000 cc and car is self driven (b) He uses the car for both personal and official use, the car is 1200 cc, chauffeur is provided by employer who bears the running and maintenance expenses and Harsh pays Rs. 2,700 p.m. to the employer for this facility  
(c) He uses the car for both personal and official use, the car is 1200 cc, car is self driven but employer bears running and maintenance expenses and Harsh pays Rs. 2,700 p.m. to the employer for this facility (d) He uses the car for both personal and official use, the car is 1200 cc, car is self driven and running and maintenance expenses are borne by Harsh

**M54.** Jagat owns a car of 1500 cc which he uses for personal as well as official purposes. His employer incurs expenses of Rs. 10,000 p.m. on running and maintenance and on driver. 80% expenses relate to official use of car which is substantiated by employer's log book and certificate issued to Jagat in this regard. Value of perquisite per month will be:

- (a) 7,300 (b) 2,000  
(c) 10,000 (d) 7,700

**M55.** Bhanu owns a motor cycle which he uses for personal as well as official purposes. His employer incurs running and maintenance expense of Rs. 3,000 p.m. 60% expenses relate to official use but employer does not maintain any record of official trips. Value of perquisite per month will be:

- (a) 3,000 (b) 1,200  
(c) 2,100 (d) 2,500

**M56.** Bhaskar was provided with a motor car by his employer of engine cubic capacity 2,000, on 1.10.2022, which he uses for official as well as personal purposes for the rest of the PY. The car is also used by his spouse and children. While the driver is provided by employer (who bears his salary of Rs. 4,000 p.m.), running and maintenance to the tune of Rs. 6,000 p.m. are borne by Bhaskar. He claims that he uses the car for official purposes to the extent of 60%. Compute the value of perquisite.

- (a) 10,800 (b) 9,000  
(c) 45,600 (d) 24,000

**M57.** Chaman works in Air India as an employee. His children are offered free air tickets worth Rs. 10,000. Value of taxable perquisite will be Rs. 10,000.

- (a) True (b) False

**M58.** Charmi works with Volvo India as an employee. During the year, she travelled free in Volvo buses of her employer for which Rs. 5,000 is charged from general passengers. Taxable value of perquisite will be Rs. 5,000.

- (a) True (b) False

### EDUCATION

**M59.** Manav receives allowance of Rs. 1,000 p.m. per child for meeting education of his 3 children and allowance of Rs. 2,000 p.m. per child for meeting their hostel expenditure. He spends Rs. 3,000 p.m. on education and Rs. 5,000 p.m. on hostel. Taxable perquisite for the PY 2022-23 will be:

- (a) 33,600 and 64,800 (b) Fully exempt  
 (c) 36,000 and 72,000 (d) 12,000 and 24,000

**M60.** Which of the following perquisites received by Jill from his employer has a taxable value?

- (a) Rs. 5,000 spent by employer on a training program for Jill (b) Free education to Jill's daughter in a school owned by his employer where cost in nearby school is Rs. 3,000 p.m.  
 (c) Free education to Jill's daughter in a school having tie-up with his employer where cost in nearby school is Rs. 1,000 p.m. (d) Reimbursement of tuition fee of Rs. 6,000 p.m. for Jill's daughter where the employer recovers the same amount from Jill

**M61.** Shyam has three children. During the PY 2022-23, he received the following benefits from his employer: Education allowance of Rs. 500 p.m. and hostel allowance of Rs. 600 p.m. for his elder son, aged 17 years, studying in Mexico, for whom he spent Rs. 1,00,000 and Rs. 1,25,000 on education and hostel expenditure, respectively. Education of his younger son in RK School, Delhi, with which his employer has a tie up – Shyam paid Rs. 500 p.m. in this regard as against a similar school in the same locality which charged Rs. 3,000 p.m. Reimbursement of tuition fee of Rs. 4,000 p.m. for education of his daughter in JK School, Noida. Shyam also received reimbursement of Rs. 10,000 towards an online training program that he undertook to improve his management skills. Compute the taxable value of these benefits for AY 2023-24.

- (a) 86,400 (b) 1,01,200  
 (c) 91,200 (d) 43,200

**M62.** Suyash is employed as an engineer with BCD Pvt. Ltd. Following particulars are available for PY 2022-23: The employer paid fees of Rs. 12,500 for attending a seminar on the subject of engineering. His son studied in a school for which the tuition fee of Rs. 25,000 was reimbursed by the employer. The employer also owned and maintained a school in which his daughter studied for which he paid a tuition fee of Rs. 750 per month. Cost of education in a similar education in nearby locality was Rs. 5,250 p.m. Compute the taxable value of the aforesaid benefits for AY 2023-24.

- (a) 25,000 (b) 66,500  
 (c) 37,500 (d) 79,000

#### ASSETS

**M63.** Bhanu is given a motor cycle owned by his employer which he uses for personal as well as official purposes. His employer incurs running and maintenance expense of Rs. 3,000 p.m. 60% expense relates to official use. Motor cycle was purchased 2 years back for Rs. 50,000. Value of perquisite will be:

- (a) 5,000 (b) 36,000  
 (c) 14,400 (d) Exempt

**M64.** Bhanu is given a laptop for use by his employer who purchased it during the year for Rs. 50,000. Laptop is used both for official purpose (50%) and by his family members for entertainment purposes (50%). Perquisite value will be:

- (a) 5,000 (b) 25,000  
 (c) 2,500 (d) Nil

**M65.** Bhanu is sold a laptop for Rs. 10,000 by his employer which was purchased during the current PY itself for Rs. 50,000. Perquisite value will be:

- (a) 10,000 (b) 50,000  
 (c) 40,000 (d) 15,000

**M66.** Bhanu is sold a motor cycle on 1.1.2023 for Rs. 10,000 which was purchased on 1.6.2021 by his employer for Rs. 50,000. Perquisite value will be:

- (a) 15,000 (b) 50,000  
 (c) 10,000 (d) 35,000

**M67.** Raju was provided with a microwave oven at his residence by his employer on 1.9.2022. It was purchased by the employer for Rs. 40,000 on 15.3.2019. Raju paid Rs. 100 p.m. on this count. He later purchased it for Rs. 1,000 on 1.3.2023. Compute the taxable value of these benefits for AY 2023-24.

- (a) 11,240 (b) 30,400  
 (c) 24,400 (d) 28,400

#### OFFICE SUPPORT

**M68.** Bhanu is provided helper allowance of Rs. 2,000 p.m. which he uses to pay salary to a helper engaged at home for personal purposes. Taxable value of perquisite will be:

- (a) 24,000 (b) Exempt  
 (c) 12,000 (d) 6,000

**M69.** Bhanu is provided uniform allowance of Rs. 10,000 out of which he spends Rs. 4,000 for purchasing office uniform and Rs. 3,000 for purchasing school uniform of his children. Taxable value of perquisite will be:

- (a) 10,000 (b) 7,000  
(c) 6,000 (d) 3,000

**M70.** Rashmi is provided the following amenities by her employer. Which of the following is not liable to tax at all?

- (a) Tea, coffee and snacks in office worth Rs. 4,000 (b) Lunch in office for Rs. 55 per meal  
(c) Paid meal vouchers of Rs. 100 each (d) Rs. 5,000 spent on F&B at the birthday party in a club, reimbursed by employer

**M71.** Which of the following benefits provided to Rashmi by her employer is liable to tax?

- (a) Telephone allowance of Rs. 2,000 per month (b) Reimbursement of telephone bill of Rs. 5,000 in the name of Rashmi  
(c) Payment of telephone bill of Rs. 5,000 in the name of employer (d) All of the above

### FINANCIAL INCENTIVES

**M72.** Rakesh is provided the following financial assistance by his employer during the PY. Which of these is fully exempt?

- (a) Sundry loans of Rs. 8,000, Rs. 5,000 and Rs. 9,000 (b) Loan for medical treatment of cancer (a prescribed disease) of Rs. 50,000. Rakesh receives insurance claim of Rs. 10,000.  
(c) Loan for medical treatment of cancer (a prescribed disease) of Rs. 50,000. Rakesh does not have a mediclaim policy. (d) Housing loan of Rs. 3 lakh received interest-free.

**M73.** Rakesh is given a personal loan of Rs. 1 lakh by his employer on 1.4.2022 at 4% p.a. interest. Entire loan is outstanding as on 31.3.2023. SBI rate for personal rate is 10% p.a. as on 1 April 2022 and 12% p.a. as on 31 March 2023. Value of taxable perquisite is:

- (a) 8,000 (b) 4,000  
(c) 10,000 (d) 6,000

**M74.** Suman obtains a housing loan of Rs. 20 lakh from her employer @ 5% p.a. interest on 1.12.2022 and starts repaying Rs. 1 lakh on 1<sup>st</sup> of every month, starting January 2023. SBI housing loan rate is 10% as on 1.4.2022 and 12% on 1.12.2022. Compute the taxable value of perquisite for AY 2023-24.

- (a) 30,833 (b) 29,166  
(c) 43,167 (d) 27,366

**M75.** Rakesh is allotted 100 shares pursuant to the ESOP scheme of the employer for Rs. 10 per share. FMV of shares is Rs. 50 per share on date of exercise of option and Rs. 60 on date of allotment. Taxable value of perquisite is:

- (a) 4,000 (b) 5,000  
(c) 1,000 (d) Exempt

**M76.** Which of these cases of gift provided to Rakesh by his employer during PY 2022-23 will not be liable to tax at all?

- (a) Cash gift of Rs. 3,000 on birthday (b) Wrist watch worth Rs. 3,000 on anniversary  
(c) Gift voucher worth Rs. 10,000 on completing 10 years of service (d) Clothing worth Rs. 3,000 and a gift cheque worth Rs. 3,000 on two separate occasions

**M77.** Yaman is provided the following benefits by his employer during the PY 2022-23. Which of these is not liable to tax?

- (a) Reimbursement of official expenses of Rs. 25,000 charged to his credit card but employer does not maintain details or issue any certificate to Yaman (b) Reimbursement of personal expenses of Rs. 25,000 charged to his credit card.  
(c) Business expenses of Rs. 10,000 incurred by Yaman on client meetings in a local club where full details are maintained by employer who also issues certificate to Yaman (d) Club fee of Rs. 10,000 p.a. reimbursed by employer where Raman goes for his personal entertainment.

### SPECIFIED EMPLOYEE

**M78.** Gamma Ltd. provided rent free accommodation and motor car owned by it to Harsh, an employee. Which of the following is correct in respect of taxability of these perquisites in the hands of Harsh?

- (a) RFA and car Taxable (b) RFA and car taxable only if Harsh is a specified employee  
(c) RFA taxable but car taxable only if Harsh is a specified employee (d) Car taxable but RFA taxable only if Harsh is a specified employee

**M79.** Who of the following is not a specified employee?

- (a) Director of a company not being its employee (b) Employee holding 25% equity share in the employer company  
(c) Employee whose salary (excluding non-monetary benefits) is Rs. 50,001 (d) Employee of a company being a director thereof

**M80.** Income-tax of employee paid by the employer is taxable only in case of specified employees.

- (a) True (b) False

**M81.** Free domestic servant facility provided by employer is taxable only in case of specified employees.

- (a) True (b) False

#### DEDUCTIONS U/S 16

**M82.** Standard deduction to be provided to an employee having gross salary income of Rs. 45,000 will be:

- (a) 50,000 (b) 45,000  
(c) Nil (d) None of the above

**M83.** Shambhu, employed with Central Government, on basic salary of Rs. 4,000 per month, is provided entertainment allowance of Rs. 1,000 per month. Amount of deduction from the gross salary income in this respect will be:

- (a) 9,600 (b) 12,000  
(c) 5,000 (d) Nil

**M84.** Sharan, employed with JK Ltd., pays professional tax of Rs. 2,500 during the PY 2022-23 of which Rs. 1,000 is paid by employer. How will this be treated?

- (a) Nothing will be included in salary; deduction of Rs. 2,500 will be given from gross salary income (b) 1,000 will be included in salary; deduction of Rs. 2,500 will be given from gross salary income  
(c) 1,000 will be included in salary; deduction of Rs. 1,000 will be given from gross salary income (d) 2,500 will be included in salary; deduction of Rs. 2,500 will be given from gross salary income

**M85.** Salary means Basic, DA (considered for computing retirement benefits) and commission (based on fixed percentage of turnover), for computing which of the following:

- (a) Entertainment allowance (b) Gratuity for employee covered under POGA  
(c) Gratuity for employee not covered under POGA, leave salary, employer's contribution to RPF, VRS and HRA (d) Residential accommodation

**M86.** Roshni, employed with JK Pvt. Ltd., has the following particulars of salary income for PY 2022-23: Basic salary of Rs. 3,00,000, taxable HRA of Rs. 1,00,000 and entertainment allowance Rs. 12,000. JK Pvt. Ltd. has paid professional tax on her behalf of Rs. 2,500. Compute the taxable salary for AY 2023-24.

- (a) 3,59,500 (b) 3,62,000  
(c) 3,64,500 (d) 3,57,000

#### RELIEF U/S 89

**M87.** Relief from tax is available in which of the following cases?

- (a) When uncommuted pension is received post retirement (b) When arrears or advance salary is received and employee remains taxable at the same rate at which he would otherwise have been taxable  
(c) When arrears or advance salary is received due to which the employee becomes taxable at a rate higher than that at which he would otherwise have been taxable (d) When additional tax in current PY is less than additional tax in the PY to which arrears or advance relates

**M88.** Relief u/s 89 is allowed at what stage?

- (a) Before HEC but after rebate u/s 87 (b) After surcharge but before HEC  
(c) Before rebate u/s 87 (d) After rebate u/s 87, surcharge and HEC

## Answer Key for MCQs

M1 A; M2 B; M3 B; M4 C; M5 A; M6 C; M7 A; M8 D; M9 C; M10 A; M11 C; M12 B; M13 D; M14 D; M15 C; M16 B; M17 D; M18 C; M19 D; M20 C; M20a C; M21 D; M22 C; M23 D; M24 A; M25 B; M26 A; M27 B; M28 B; M29 C; M30 D; M31 D; M32 A; M33 A; M34 B; M35 C; M36 D; M37 B; M38 A; M39 B; M40 D; M41 C; M42 D; M43 B; M44 C; M45 A; M46 A; M47 D; M48 D; M49 C; M50 B; M51 C; M52 A; M53 B; M54 B; M55 C; M56 A;

M57 B; M58 A; M59 A; M60 B; M61 C; M62 D; M63 A; M64 D; M65 C; M66 D; M67 D; M68 A; M69 C; M70 A; M71 A; M72 C; M73 D; M74 A; M75 A; M76 B; M77 C; M78 C; M79 A; M80 B; M81 A; M82 B; M83 C; M84 B; M85 C; M86 B; M87 C; M88 D

## Hints to MCQ answers

**M2.** Arrears of salary paid or allowed in the PY, since not charged to tax for any earlier PY.

**M4.** Salary for Apr 22 to Mar 23 of 7,30,000 (60,000 for 11 months + 70,000 for 1 month as per pay scale) + Arrears 30,000 + Advance of Apr 23 of 70,000 – Salary of Apr 22 paid in PY 2021-22 of 60,000 (taxed in PY 2021-22, thus, not taxed again) + Salary of Jan 22 NIL since already taxed in PY 2021-22 = 7,70,000

**M5.** Salary from German company NIL as receipt/accrual outside India + Salary from PQR of 15 lakh as accrued in India + Salary as partner NIL as falls under PGBP + Donation not to be reduced as it is application of income + Advance adjusted against salary NIL = 15 lakh

**M6.** DA 60,000 + Overtime 36,000 + Mine allowance 2,400 (1,000 pm - 800 pm exempt) + Tribal area allowance 9,600 (1,000 pm - 200 pm exempt) = 1,08,000

**M10.** Gratuity exempt = Lower of (a) 5 lakh, (b) 15 lakh (20 lakh – 5 lakh already exempt), (c)  $(15/26) \times 90,000$  (basic 50,000 + DA 40,000)  $\times$  11 years (period > 6 months is 1 year), i.e., 5,71,154 = 5 lakh. // Gross salary = NIL gratuity + 4,50,000 basic + 3,60,000 DA + commission 45,000 + taxable HRA 20,000 = 8,75,000

**M11.** Gratuity exempt = Lower of (a) 5 lakh, (b) 10 lakh (20 lakh – 10 lakh already exempt), (c) 35,000 (half of average of basic 50,000 + DA(T) 20,000 (50% of 80% of basic) + C(TO) NIL (as not based on % of turnover) of last 10 months)  $\times$  10 completed years, i.e., 3,50,000 = 3,50,000. // Gross salary = 1,50,000 gratuity (5,00,000 – 3,50,000 exempt) + 5,00,000 basic + 4,00,000 DA + commission 50,000 + taxable HRA 20,000 + gratuity received in PY 2021-22 taxable but does not pertain to current PY = 11,20,000

**M13.** Gross salary = Regular salary 6,00,000 + Nil gratuity as exempt + Uncommuted pension 40,000 (20,000 for Jan + 20,000 for Feb and Mar) + commuted pension 1,66,667 (5,00,000 – exempt u/s 10(10A) 3,33,333  $[1/3 \times 5,00,000/50 \times 100]$ ) = 8,06,667

**M16.** Leave salary exempt = (a) 3,00,000 received, (b) 3,00,000 limit, (c) 10 month's average salary of 13,00,000 (basic 10,00,000 + DA(T) 2,80,000 (70% of DA) + C(TO) 20,000 (based on % of turnover)), (d) leave credit of 2 months (210 days (7 years @ 30 days) – 120 days availed – 20 days lapsed – 10 days encashed)  $\times$  average salary of 1,30,000, i.e., 2,60,000 = 2,60,000. /// Gross salary = basic 10,00,000 + DA 4,00,000 + fixed commission 40,000 + medical allowance 30,000 + TO commission 20,000 + leave salary (3,00,000 – 2,60,000 exempt) 40,000 + leave encashed while in service 50,000 = 15,80,000

**M18.** Employer contribution and interest is taxable as salary.

**M19.** Accumulated balance exempt since service terminated before 5 years due to closure of employer's business. Interest on employee's contribution not taxable as there is no contribution > 2.5 lakh on and from PY 2021-22.

**M20.** Gross salary = Basic 7,20,000 + DA 4,80,000 + Commission 60,000 + perquisites 50,000 + overtime 24,000 + employer contribution to RPF 41,760 (1,80,000 – 12% of 11,52,000 (basic + 90% of DA + Nil commission as not based on fixed % of turnover) + Interest in excess of 9.5% of 9,000 = 13,84,760

**M20a.** Contribution of Rishabh and BCD Ltd., each, to RPF = 11% of 30,24,000 (27,00,000 basic + 3,24,000 DA) = 3,32,640. Interest up to 9.5% is exempt. However, interest relating to Rishabh's contribution exceeding 2,50,000 (3,32,640 – 2,50,000), i.e., 82,640 is not exempt. As per Rule 9D, separate non-taxable contribution a/c and taxable contribution a/c are to be maintained. Balance in taxable contribution a/c = Rishabh's contribution for PY 2022-23 exceeding 2,50,000 = 82,640. Balance in non-taxable contribution a/c = 2,50,000. Interest of 53,250 is earned on total contribution of Rishabh and BCD Ltd. of 6,65,280. Interest relatable to 82,640 = 53,250  $\times$  (82,640 / 6,65,280) = 6,615.

**M21.** Employer contribution = 10% of 36 lakh = 3.6 lakh. Exempt as it is  $\leq$  7.5 lakh. Interest is exempt.

**M22.** Employer's contribution will be first included in salary and then deduction will be provided u/s 80CCD.

**M23.** *Employer's contribution:* 2L contribution to NPS is included in salary first and then deduction u/s 80CCD is given from GTI. RPF contribution is exempt till 12%. Combined amount does not hit upper cap of 7.5L, hence, no addition on that account. *Employee's contribution:* Not taxable as salary.

**M24.** VRS exempt = lower of (a) 25,00,000 received, (b) 5,00,000 limit, (c) 3 months  $\times$  90,000 (basic 70,000 + DA(T) 20,000 (40% of DA) + C(TO) nil as it is fixed)  $\times$  10 completed years, i.e., 27,00,000, (d) 30 months left  $\times$  90,000, i.e., 27,00,000 = 5,00,000. /// Gross salary = 4,20,000 basic + 3,00,000 DA + 1,00,000 bonus + 24,000 commission + 20,00,000 VRS (25 lakh – 5 lakh exempt) = 28,44,000

**M27.** A: Treatment not in specified hospital; C: In excess of RBI limit; D: GTI (before including travel expenses) is > 2 lakh

**M29.** Fixed medical allowance 30,000 + insurance premium 5,000 + son's treatment NIL as exempt + father's treatment 30,000 taxable as he not dependent + private clinic 10,000 + treatment in approved nursing home for prescribed disease NIL as exempt = 75,000

**M30.** Taxable = treatment and stay 2 lakh (6 lakh – 4 lakh permitted) + travel not exempt 3 lakh (as GTI (before including travel expenses) is > 2 lakh) = 5 lakh

**M33.** Lower of (a) 60,000 received, (b) 66,000 rent paid – 10% of salary of 1,75,200 (1,20,000 basic + 43,200 DA(T) (60% of DA) + 12,000 commission based on % of turnover), i.e., 48,480, (c) 50% of 1,75,200, i.e., 87,600 = 48,480.

**M34.** HRA exempt for Oct 22 to Mar 23 for 6 months = Lower of (a) 1,20,000 HRA, (b) 90,000 rent paid – 36,000 (10% of salary >> 2,40,000 basic + 1,20,000 DA(T) + Nil C(TO)), i.e., 54,000, (c) 40% of 3,60,000 i.e., 1,44,000 = 54,000. /// Gross salary = Basic 4,80,000 + DA 2,40,000 + conveyance allowance 60,000 + HRA 2,40,000 – Exempt 54,000 = 9,66,000

**M38.** Hire charges

- M39.** Gross salary = 10,80,000 basic + 6,00,000 DA + 3,60,000 HRA + medical perquisite 50,000 + RFA value 2,40,000 license fee + furniture 50,000 (10% of cost) = 23,80,000
- M40.** Accommodation value = 10% of salary (basic 10,80,000 + DA(T) 3,00,000 (50% of DA) + HRA 3,60,000 + commission 1,20,000, i.e., 18,60,000), i.e. 1,86,000 + A/C hire 60,000 – rent paid 1,20,000 = 1,26,000. /// Gross salary = Basic 10,80,000 + DA 6,00,000 + HRA 3,60,000 + commission 1,20,000 + perquisites 50,000 + house 1,26,000 = 23,36,000
- M41.** Taxable value of perquisite is manufacturing cost per unit
- M42.** Since entire amount is recovered from employee
- M45.** 70% (8,400) exempt up to max of 10,000 pm. 30% is taxable = 43,200
- M46.** Gross salary = Basic 4,80,000 + conveyance allowance 40,000 (1,20,000 – 80,000 exempt) + transport allowance 60,000 + project allowance 20,000 + travelling allowance 10,000 (30,000 – 20,000 exempt) + daily allowance 5,000 (20,000 – 15,000 exempt) = 6,15,000
- M47.** Exempt = 70% (12,600) up to max of 10,000 p.m., i.e., 10,000. Taxable = 8,000 p.m.
- M48:** A: Travel is outside India; B: Not fully exempt as there are 3 children; C: Not fully exempt as spend is in business class and also on stay and food.
- M49.** Exemption is available for 2 journeys in a block of 4 calendar years (2018-2021). 1 unutilized journey of previous block can be carried forward.
- M50.** LTC exempt = 10,000 for 4 persons (self, spouse, two children) = 40,000. // Gross salary = Basic 6,00,000 + LTC 60,000 (1,00,000 – 40,000 exempt) = 6,60,000
- M52.** Annual value = 60,000 (10% of actual cost of 6L) + 30,000 R&M borne by employer + 1,20,000 driver salary borne by employer – 60,000 recovery = 1,50,000. Per month value = 1,50,000 / 12 = 12,500
- M53.** Value will be 1,800 p.m. for car + 900 p.m. for driver
- M54.** Value = 10,000 expenditure by employer – 80% towards official use as log book maintained and certificate issued = 2,000 p.m. 80% deduction can be claimed instead of 2,700 p.m. (1,800 + 900) as documentation conditions are fulfilled and it is more beneficial.
- M55.** Value = 3,000 pm expenditure by employer – 900 pm = 2,100 pm
- M56.** Value = 900 p.m. for car + 900 p.m. for driver = 1,800 p.m. for 6 months
- M57.** Exempt in case of airline
- M59.** Education: 36,000 – 2,400 exempt @ 100 p.m. per child for 2 children = 33,600. Hostel: 72,000 – 7,200 @ 300 p.m. per child for 2 children = 64,800.
- M60.** A: Training to employee exempt; C: Exempt as up to 1,000 pm; D: Exempt as full amount recovered; B: Taxable as > 1,000 pm
- M61.** Elder son = 6,000 + 7,200 = 13,200 (allowance taxable as outside India). Younger son = 36,000 cost in similar institution – 6,000 recovered = 30,000\*. Daughter = 48,000. Training for Shyam = Exempt. Total = 91,200. \*Alternatively, 24,000 (3,000 pm – 1,000 pm exempt) – 6,000 can also be taken.
- M62.** Seminar NIL as training for Suyash + Son 25,000 expenditure incurred by employer + Daughter 54,000 (63,000 cost in similar institution – 9,000 recovered) = 79,000
- M63.** 10% p.a. of actual cost
- M64.** Use of laptop is exempt
- M65.** Cost 50,000 – Nil Dep as completed years of use is zero – 10,000 recovered = 40,000
- M66.** Cost 50,000 – 10% dep on SLM for 1Y (completed years of use) of 5,000 – 10,000 recovered = 35,000
- M67.** Value for use = 10% p.a. of 40,000 for 6 months = 2,000 – 600 recovered = 1,400. // Value for transfer = 40,000 – 10% depreciation for 3Y (completed years of use) being 12,000 – 1,000 recovered = 27,000 // Total = 28,400
- M68.** Taxable as expenses are personal
- M69.** Official expense is exempt
- M72.** A: Not exempt as aggregate is > 20,000; B: Not fully exempt as amount reimbursed under insurance; C: fully exempt; D: not exempt
- M73.** 6% (10% - 4%) of 1 lakh = 6,000.
- M74.** Maximum outstanding monthly balance is Dec 20L + Jan 19L + Feb 18L + Mar 17L = 74L. Taxable = 5% (10% - 5%) × 74L × 1/12 = 30,833
- M75.** 100 shares @ 40 (50 - 10) per share
- M76.** Gift in cash is taxable. Gift in kind of aggregate value of 5,000 or more is taxable.
- M80.** Taxable for all employees as it is obligation of employee met by employer.
- M83.** Lower of (a) 20% of 48,000, i.e., 9,600 or (b) 5,000 limit or (c) 12,000 allowance received = 5,000
- M86.** Gross salary = 3,00,000 basic + 1,00,000 taxable HRA + 12,000 entertainment allowance + 2,500 professional tax paid by employer = 4,14,500. // Taxable salary = 4,14,500 – SD 50,000 – Prof tax 2,500 = 3,62,000



## 6

# Income from House Property

## Build Your Confidence (BYC)

Questions have been solved ignoring the provisions of section 115BAC (para 210), unless specified otherwise

### BASIS OF CHARGE & COMPUTATION

**B1-5. GAV: LOP + U/R** – Compute the GAV of each house from information given below, assuming the house is let out.

Particulars	I	II	III	IV	V
Municipal value	3,00,000	3,20,000	3,20,000	3,20,000	3,20,000
Fair rent	3,20,000	3,00,000	3,00,000	3,00,000	3,00,000
Standard rent	-	3,50,000	2,80,000	3,10,000	2,80,000
Actual rent received or receivable	3,50,000	3,40,000	3,00,000	3,50,000	3,00,000
Unrealized rent	-	-	50,000	30,000	50,000
Rule 4 conditions fulfilled?	-	-	Yes	Yes	No

#### Computation of GAV

Particulars	I	II	III	IV	V
Municipal value (MV)	3,00,000	3,20,000	3,20,000	3,20,000	3,20,000
Fair rent (FR)	3,20,000	3,00,000	3,00,000	3,00,000	3,00,000
Higher of FR or MV	3,20,000	3,20,000	3,20,000	3,20,000	3,20,000
Standard rent (SR)	-	3,50,000	2,80,000	3,10,000	2,80,000
Expected rent = Higher of FR or MV, but restricted to SR (ER)	3,20,000	3,20,000	2,80,000	3,10,000	2,80,000
Actual rent received or receivable – Unrealized rent (AR)	3,50,000	3,40,000	2,50,000	3,20,000	3,00,000*
<b>GAV = Higher of ER or AR</b>	<b>3,50,000</b>	<b>3,40,000</b>	<b>2,80,000</b>	<b>3,20,000</b>	<b>3,00,000</b>

\*Unrealized rent is not deducted because conditions of Rule 4 are not satisfied.

**B6-9. VACANCY** – Compute the gross annual value of a let out house property owned by Jaydeep in the following cases.

Particulars	I	II	III	IV
Municipal valuation	2,50,000	2,50,000	2,50,000	2,50,000
Fair rent	2,00,000	2,00,000	2,00,000	2,00,000
Standard rent	2,10,000	2,10,000	2,10,000	2,00,000
Rent per month	20,000	20,000	20,000	25,000
Unrealized rent (Rule 4 conditions are fulfilled)	20,000	-	20,000	20,000
Period for which property vacant (months)	-	2	2	2

#### Computation of gross annual value

Computation	I	II	III	IV
Expected rent = Higher of FR or MV, but restricted to SR (ER)	2,10,000	2,10,000	2,10,000	2,00,000
Actual rent (Actual rent received/receivable for let out period – Unrealized rent) (AR)	2,20,000	2,00,000	1,80,000	2,30,000
Vacancy allowance: See Note	No	Yes	Yes	No
<b>Gross annual value</b>	<b>2,20,000</b>	<b>2,00,000</b>	<b>1,80,000</b>	<b>2,30,000</b>



**Note:**

Particulars	I	II	III	IV
AR without vacancy	-	2,40,000	2,20,000	2,80,000
AR with vacancy	-	2,00,000	1,80,000	2,30,000
AR is < ER due to vacancy?	There is no vacancy. GAV is higher of ER or AR	Yes as 2,00,000 is < 2,10,000 due to vacancy with otherwise would have been 2,40,000; Vacancy allowance is available and GAV = AR	Yes as 1,80,000 is < 2,10,000 due to vacancy with otherwise would have been 2,20,000; Vacancy allowance is available and GAV = AR	No. AR (with or without vacancy) is $\geq$ 2,00,000. GAV is higher of ER or AR

**B10-13. MUNICIPAL TAXES** – Compute the NAV of each house owned by Ruchi, a ROR, for the PY 2022-23 from the following information. 1 USD = INR 75

Particulars	I	II	III	IV
Location of house	Pune	Chennai	Gurgaon	USA
Municipal valuation	3,00,000	5,00,000	2,50,000	30,000 USD
Fair rent	4,00,000	6,00,000	3,00,000	35,000 USD
Standard rent	3,50,000	4,00,000	3,50,000	-
Rent per month	30,000	50,000	20,000	3,000 USD
Unrealized rent (Rule 4 conditions are fulfilled)	30,000	-	10,000	-
Municipal taxes due for 2022-23	5%	2%	10,000	10%
Municipal taxes paid during 2022-23	10,000	3%	12,000	Nil for 2022-23, 500 USD for 2021-22 and 200 USD for 2023-24
Municipal taxes paid by	Ruchi	50% by Ruchi	Tenant	Ruchi

■

Computation of NAV

Particulars	I	II	III	IV	
Expected rent (higher of FR or MV, but restricted to SR) (ER)	3,50,000	4,00,000	3,00,000	35,000 × 75	26,25,000
Actual rent received or receivable – Unrealized rent (AR)	3,30,000	6,00,000	2,30,000	36,000 × 75	27,00,000
GAV = Higher of ER or AR	3,50,000	6,00,000	3,00,000		27,00,000
Less: Municipal taxes paid by Ruchi during PY 2022-23	(10,000)	(7,500)	-	700 × 75	(52,500)
<b>NAV</b>	<b>3,40,000</b>	<b>5,92,500</b>	<b>3,00,000</b>		<b>26,47,500</b>

**B14-17. INTEREST** – Compute the deduction for PY 2022-23 in respect of interest on borrowed capital in the following situations.

Particulars	I	II	III	IV
Status of property	Let out	Self occupied	Self occupied	Self occupied
Purpose of loan	Renewal	Construction	Construction	Repair
Loan taken from	SBI	Bajaj Finance	HDFC	Colleague
Amount of loan	30 lakh	40 lakh	40 lakh	10 lakh
Date when loan taken	1 Apr 2015	1 Oct 2018	1 Oct 2016	1 Aug 2020
Date when loan repaid	Outstanding	Outstanding	Outstanding	Outstanding
Date when work started for which loan taken	1 May 2016	1 June 2018	1 June 2018	1 Oct 2020
Date when work completed	1 May 2021	1 Dec 2022	1 Dec 2022	1 Sep 2022
Interest due for current year	3,10,000	4,00,000	4,00,000	90,000
Interest paid during current year	2,40,000	4,50,000	4,50,000	-
Prior period interest (1/5 <sup>th</sup> instalment)	80,000	1,20,000	1,20,000	30,000

■

Computation of deduction on account of interest on borrowed capital

Computation	I	II	III	IV
Current year interest	3,10,000	4,00,000	4,00,000	90,000
Prior period interest	-	1,20,000	1,20,000	-
<b>Total deduction of interest u/s 24(b)</b>	<b>3,10,000</b>	<b>2,00,000</b>	<b>30,000</b>	<b>30,000</b>
Comment	Note 1	Note 2	Note 3	Note 4

**Note 1:** Capital is borrowed for renewal of property. Property is let out. Interest is fully deductible. However, prior period interest is not deductible since it is not a case of acquisition or construction of property. Deduction = 3,10,000.

**Note 2:** Capital is borrowed for construction of property. Property is self-occupied (SOP). Capital is borrowed on or after 1.4.1999. Construction is completed within 5 years from the end of FY in which capital is borrowed, i.e., within FY 2023-24. Hence, enhanced limit of deduction of Rs. 2,00,000 is available (assuming assessee furnishes the requisite certificate from the lender). Current year interest of Rs. 4,00,000 + prior period interest of Rs. 1,20,000 = Rs. 5,20,000. Deduction = Rs 2,00,000.

**Note 3:** Capital is borrowed for construction of property. Property is self-occupied (SOP). Capital is borrowed on or after 1.4.1999. However, construction is not completed within 5 years from the end of FY in which capital is borrowed, i.e., within FY 2021-22. Hence, enhanced limit of deduction of Rs. 2,00,000 is not available. Deduction is limited to Rs. 30,000. Current year interest of Rs. 4,00,000 + prior period interest of Rs. 1,20,000 = Rs. 5,20,000. Deduction = Rs. 30,000.

**Note 4:** Property is self-occupied (SOP). However, capital is borrowed for repair of property. Hence, enhanced limit of deduction of Rs. 2,00,000 is not available. Deduction is limited to Rs. 30,000. Prior period interest is not deductible as it is not a case of acquisition or construction of property. Deduction = Rs. 30,000.

**B18. PRIOR PERIOD INTEREST – CA2017(MAY)** – Ganesh owns a commercial building whose construction got completed in June 2021. He took a loan of Rs. 15 lakh from his friend on 1.8.2020 and had been paying interest @ 15% p.a. He is eligible for pre construction interest deduction as per provisions of Income Tax Act. He has let out the commercial building at a monthly rent of Rs. 40,000 during FY 2022-23. He paid municipal tax of Rs. 18,000 each for FY 2021-22 and FY 2022-23 on 1.5.2022 and 5.4.2023, respectively. Compute IHP for AY 2023-24.

■ *Computation of income from house property for AY 2023-24*

Particulars	Rs.
GAV: Actual Rent is taken as GAV in absence of Expected Rent values in the question	4,80,000
Less: Municipal taxes paid during the PY by Jagdeep	(18,000)
NAV	4,62,000
Less: Deduction u/s 24:	
Standard deduction @ 30% of NAV	(1,38,600)
Interest on borrowed capital:	(2,55,000)
<ul style="list-style-type: none"> <li>• Current year interest = 15% of 15 lakh (assuming entire loan is outstanding) = 2,25,000</li> <li>• Prior period interest from the date of borrowing (1.8.2020) to 31 March immediately preceding the date of completion of acquisition or construction (31.3.2021), i.e., 15% of 15 lakh for 8 months = 1,50,000. Deductible in 5 equal installments from PY 2021-22 onwards of Rs.30,000 each.</li> <li>• Total interest = 2,55,000 (deductible in full since property is let out)</li> </ul>	
<b>Income from house property</b>	<b>68,400</b>

**B19. INTEREST – CA2017(NOV)** – Jyoti purchased a house property costing Rs. 49 lakh on 1.5.2022. The property is used exclusively for her residential purpose. For this purpose, she obtained loan from DHFL of Rs. 35 lakh bearing interest @ 14% p.a. on 1.4.2022. She does not own any other house. State with brief reasons the deductions that can be claimed by Jyoti in respect of interest on loan for AY 2023-24.

■ Capital is borrowed for acquisition of property. Property is self-occupied (SOP). Capital is borrowed on or after 1.4.1999. Acquisition is completed within 5 years from the end of FY in which capital is borrowed, i.e., within FY 2027-28. Hence, enhanced limit of deduction of Rs. 2,00,000 is available (assuming she furnishes the requisite certificate from the lender). Current year interest of 14% of 35 lakh, i.e., 4,90,000 is deductible to the extent of 2,00,000.

**B20-22. INTEREST** - Gaurav owns a house property in Chandigarh whose municipal valuation is Rs. 5,00,000 p.a. Rental value based on comparable properties in the locality is Rs. 6,00,000 p.a. Rent Control Act is applicable under which the Standard Rent is Rs. 3,50,000. Municipal taxes are levied @ 5% in respect of which he paid Rs. 7,500 on 15.12.2022 (out of which Rs. 2,500 pertained to PY 2021-22). He took a loan of Rs. 50,00,000 on 1.10.2018 from ICICI Bank @ 10% p.a. in respect of this property. Commission to arrange the loan was Rs. 50,000 which was paid on 10.10.2018. Repayment details are given as under:

FY	Principal	Interest
2018-19	1,00,000	2,25,000
2019-20	3,00,000	4,50,000
2020-21	4,00,000	4,00,000
2021-22	5,00,000	3,75,000
2022-23	6,00,000	3,50,000

He defaulted in payment of interest during FY 2022-23 for which he had to pay penal interest of Rs. 20,000 on 1.2.2023. Compute the income from house property for AY 2023-24 if:

- He has let out the house at a rent of Rs. 40,000 p.m. and he used the loan to construct the house which got completed on 15.9.2021.
- He has occupied the house for his own residence and he used the loan to construct the house which got completed on 15.9.2021.
- He has occupied the house for his own residence and he used the loan to reconstruct the house which got completed on 15.9.2021.

■  
Computation of income from house property for AY 2023-24

Particulars	A	B	C
Expected rent (higher of fair rent or municipal value, but restricted to standard rent) (ER)	3,50,000	-	-
Actual rent received or receivable (AR)	4,80,000	-	-
Gross annual value = Higher of ER or AR	4,80,000	-	-
Less: Municipal taxes paid by owner during PY 2022-23	(7,500)	-	-
Net annual value	4,72,500	-	-
Less: Deductions u/s 24:			
• Standard deduction @ 30% of NAV	(1,41,750)	-	-
• Interest on borrowed capital (Note)	(5,65,000)	(2,00,000)	(30,000)
<b>Income from house property</b>	<b>(2,34,250)</b>	<b>(2,00,000)</b>	<b>(30,000)</b>

Note:

Particulars	A	B	C
Current year interest	3,50,000	3,50,000	3,50,000
Prior period interest from the date of borrowing (1.10.2018) to 31 March immediately preceding the date of completion of construction (31.3.2021) = 10,75,000 (2,25,000 + 4,50,000 + 4,00,000). Deductible in 5 equal installments from PY 2021-22 onwards	2,15,000	2,15,000	2,15,000
Deduction	5,65,000	2,00,000	30,000
	Note 1	Note 2	Note 3

Note 1: Capital is borrowed for construction of property. Property is let out. Interest is fully deductible.

Note 2: Capital is borrowed for construction of property. Property is self-occupied (SOP). Capital is borrowed on or after 1.4.1999. Construction is completed within 5 years from the end of FY in which capital is borrowed, i.e., within FY 2023-24. Hence, enhanced limit of deduction of Rs. 2,00,000 is available (assuming assessee furnishes the requisite certificate from the lender).

Note 3: Property is self-occupied (SOP). However, capital is borrowed for reconstruction of property. Hence, enhanced limit of deduction of Rs. 2,00,000 is not available. Deduction is limited to Rs. 30,000. Prior period interest is not deductible as it is not a case of acquisition or construction of property.

**SPECIAL SITUATIONS**

**B23. DLOP – CA2018(NOV) (modified)** – Mr. Chakrobarty, a resident aged 35 years, works as a Deputy Manager in Dews Ltd. located in Noida since April 2015. He owns three houses and uses it for self-purpose. The following information relates to the houses for the PY 2022-23.

Particulars	House I – Noida – He and his family reside	House II – Gurgaon – His father resides	House III – Chennai – His mother resides
Municipal value p.a.	8,00,000	9,00,000	10,00,000
Fair rent	9,20,000	8,80,000	9,50,000
Standard rent p.a.	8,40,000	9,20,000	9,00,000
Actual rent p.m.	-	-	-
Municipal taxes paid during the year (paid for Houses I and II)	8%	10%	5%
Date of completion of construction of properties	31.3.2015	25.5.2022	15.1.2019

He had taken a loan of Rs. 18,00,000 for the construction of House II and of Rs. 5,00,000 for repair of House III, on 1.4.2020. Interest was payable @ 10% p.a. Till date, no payment was made towards the principal amount.

Mr. Chakrobarty seeks your professional advice to plan his tax liability. Give suggestion to Mr. Chakrobarty as to which houses should be considered and treated as self occupied properties so that his house property income is minimum for AY 2023-24. Also compute the income from house property.

Step 1: Compute income from each property assuming it is SOP

Computation	House I	House II	House III
Net annual value	Nil	Nil	Nil
Less: Deductions u/s 24:			
Standard deduction @ 30% of NAV	-	-	-
Interest on borrowed capital:			
<ul style="list-style-type: none"> <li>House II: Current year interest = 1,80,000 (10% p.a. on 18 lakh) Prior period interest from the date of borrowing (1.4.2020) to 31 March immediately preceding the date of completion of acquisition or construction (31.3.2022) = 3,60,000 (10% p.a. on 18 lakh for 2 years). Deductible in 5 instalments = 72,000 each. Total interest = 2,52,000, deductible up to 2,00,000*</li> </ul>	-	(2,00,000)	-
<ul style="list-style-type: none"> <li>House III: Current year interest = 10% p.a. of 5 lakh, deductible up to 30,000 since capital is borrowed for repair</li> </ul>	-	-	(30,000)
<b>Income from house property</b>	<b>Nil</b>	<b>(2,00,000)</b>	<b>(30,000)</b>

\*Capital is borrowed for construction of property. Property is self-occupied (SOP). Capital is borrowed on or after 1.4.1999. Construction is completed within 5 years from the end of FY in which capital is borrowed. Hence, enhanced limit of deduction of Rs. 2,00,000 is available (assuming assessee furnishes the requisite certificate from the lender).

Step 2: Compute income from each property assuming it is DLOP

Computation	House I	House II	House III
Expected rent (higher of fair rent or municipal value, but restricted to standard rent) (ER)	8,40,000	7,66,849	9,00,000
Since House II exists from 25.5.2022, annual value is computed for 311 days (25.5.2022 to 31.3.2023) = 9,00,000 × (311/365)			
Actual rent	N/A	N/A	N/A
Gross annual value = ER	8,40,000	7,66,849	9,00,000
Less: Municipal taxes actually paid during the PY 2022-23 by assessee	(64,000)	(90,000)	-
Net annual value	7,76,000	6,76,849	9,00,000
Less: Deductions u/s 24:			
<ul style="list-style-type: none"> <li>Standard deduction @ 30% of NAV</li> </ul>	(2,32,800)	(2,03,055)	(2,70,000)
<ul style="list-style-type: none"> <li>Interest on borrowed capital: Fully deductible in case of DLOP</li> </ul>	-	(2,52,000)	(50,000)
<b>Income from house property</b>	<b>5,43,200</b>	<b>2,21,794</b>	<b>5,80,000</b>

Step 3: Create combinations of properties (where any 2 are treated as SOP and others are treated as DLOP) and compute the income under the head IHP for each combination.

Property	Option 1	Option 2	Option 3
I	SOP Nil	SOP Nil	DLOP 5,43,200
II	SOP (2,00,000)	DLOP 2,21,794	SOP (2,00,000)
III	DLOP 5,80,000	SOP (30,000)	SOP -*
<b>Total</b>	<b>3,80,000</b>	<b>1,91,794</b>	<b>3,43,200</b>

\*Should ensure that total interest deduction of both SOP properties does not exceed the aggregate limit of 2 lakh.

Option 2 is most tax efficient. Houses I and III should be treated as SOP and House II should be treated as DLOP. This will minimize the income taxable under the head IHP.

**B24. DLOP – CA2018(MAY) – Rohan, a resident individual, owns three houses in Chennai. One house is self occupied by him, second house is self occupied by his major son and the third house is vacant during the year. You are required to highlight the steps involved to compute 'Income from house property' for Rohan under deemed to be let out concept.**

■ First two houses are in the nature of SOP. Assuming that the third house is unoccupied since Rohan has to reside at another place in a building not belonging to him, due to employment, business or profession, it will be treated as UOP. Of these 3 houses, Rohan can treat 2 houses as SOP at his option. The third house will be treated as DLOP. For steps to be followed in selection of properties,

refer para 81 of Concepts Book. Once the selection is made, income from house properties will be computed as per the Steps given in the Master Chart of Computation – refer para 80 of Concepts Book.

**B25. SOP/UOP & LOP FOR PART YEAR – CA2018(NOV)** – Disha Khanna, a resident of India, owns a house property at Bhiwani in Haryana. Municipal value of the property is Rs. 7,50,000. Fair rent of the property is Rs. 6,30,000 and standard rent is Rs. 7,20,000. Property was let out for Rs. 75,000 p.m. for the period April 2022 to December 2022. Thereafter, the tenant vacated the property and Disha used the house for self occupation. Rent for November and December 2022 could not be realized from the tenant. The tenancy was bona fide but the defaulting tenant was in occupation of another property of the assessee, paying rent regularly. She paid municipal taxes @ 12% during the year and paid interest of Rs. 35,000 during the year for amount borrowed towards repairs of the property. Compute the income from house property for AY 2023-24.

*Computation of income from house property for AY 2023-24*

Particulars	Rs.
Expected rent (higher of fair rent or municipal value but restricted to standard rent (ER))	7,20,000
Actual rent (Actual rent received/receivable for 9 months (6,75,000) – Unrealized rent (Nil since Rule 4 conditions are not satisfied as tenant is in occupation of another property of Disha)) (AR)	6,75,000
Gross annual value = Higher of ER or AR	7,20,000
Less: Municipal taxes actually paid during the PY by Disha (12% of 7.5 lakh)	(90,000)
Net annual value	6,30,000
Less: Deductions u/s 24:	
(a) Standard deduction @ 30% of NAV	(1,89,000)
(b) Interest on borrowed capital: Allowed in full as property is treated as let out	(35,000)
<b>Income from house property</b>	<b>4,06,000</b>

*Mistake by students – Students wrongly considered rent for whole year instead of let out period.*

**B26. SOP/UOP & LOP FOR PORTION – Sarika owns a house at Delhi. During the PY 2022-23, 3/4<sup>th</sup> portion of the house is self occupied and 1/4<sup>th</sup> portion is let out for residential purposes on a rent of Rs. 7,000 p.m. Municipal valuation of the house is Rs. 2,00,000 and fair rent is Rs. 2,40,000. She incurs the following expenditure in respect of the house property: Municipal taxes Rs. 60,000; Repairs Rs. 20,000; Fire insurance premium Rs. 3,500; Land revenue Rs. 4,000; Ground rent Rs. 2,000 were paid during the year. A loan of Rs. 9,00,000 was taken on 1.4.2017 @ 15% p.a. for the construction of the house which was completed on 15.3.2020. Nothing was repaid on loan account so far. Find out her income from house property for AY 2023-24.**

*Computation of Income from House Property in the hands of Sarika for AY 2023-24*

Computation	SOP (3/4)	LOP (1/4)
Expected rent for LOP portion = 1/4 <sup>th</sup> of higher of fair rent or municipal value = 1/4 <sup>th</sup> of 2,40,000 (ER)	-	60,000
Actual rent received/receivable for LOP portion @ 7,000 p.m. (AR)	-	84,000
GAV = Higher of ER or AR	-	84,000
Less: Municipal taxes paid during the year by Sarika for LOP portion = 1/4 <sup>th</sup> of 60,000	-	(15,000)
NAV	-	69,000
Less: Deductions u/s 24:		
(a) Standard deduction @ 30% of NAV	-	(20,700)
(b) Interest on borrowed capital: See note	(1,41,750)	(47,250)
<b>Income from house property</b>	<b>(1,41,750)</b>	<b>1,050</b>
<b>Income from house property</b>	<b>(1,40,700)</b>	

*Note:*

Current year interest = 15% of 9 lakh = 1,35,000.

Prior period interest from the date of borrowing (1.4.2017) to 31 March immediately preceding the date of completion of acquisition or construction (31.3.2019), i.e., 15% of 9 lakh for 2 years = 2,70,000. Deductible from PY 2019-20 to PY 2023-24 in 5 equal installments of Rs. 54,000 each.

Total interest deductible = 1,89,000. 1/4<sup>th</sup> deductible for LOP portion and 3/4<sup>th</sup> for SOP portion (enhanced limit of 2 lakh is available for SOP portion as loan is taken for construction of SOP portion, it is taken on or after 1.4.1999, construction is completed within 5 years from the end of FY in which loan is taken and assuming Sarika furnishes the requisite certificate from the lender).

**B27. SOP/UOP & LOP FOR PORTION – CA2021(JULY)** – Ramesh constructed a big house (construction completed in PY 2010-11) with 3 independent units. Unit-1 (50% of floor area) is let out for residential purpose at monthly rent of Rs. 15,000. A sum of Rs. 3,000

could not be collected from the tenant and a notice to vacate the unit was given to the tenant. No other property of Ramesh is occupied by the tenant. Unit-1 remains vacant for 2 months when it is not put to any use. Unit-2 (25% of floor area) is used by Ramesh for the purpose of his business, while Unit-3 (the remaining 25%) is utilized for the purpose of his residence.

Other particulars of the house are as follows: Municipal valuation – Rs. 1,88,000; fair rent – Rs. 2,48,000; Standard rent under the Rent Control Act – Rs. 2,28,000; Municipal taxes – Rs. 20,000; repairs – Rs. 5,000; interest on capital borrowed for the construction of the property – Rs. 60,000; ground rent – Rs. 6,000 and fire insurance premium paid – Rs. 60,000. Income of Ramesh from the business is Rs. 1,40,000 (without debiting house rent and other incidental expenditure).

Determine the taxable income of Ramesh for AY 2023-24.

#### Computation of taxable income of Ramesh for AY 2023-24

Income from Unit 1 will be computed as let out property, income from Unit 3 will be computed as self-occupied property and income from Unit 2 will be computed under the head PGBP. It is recommended to attempt computation of income from Unit 2 after studying the Chapter on PGBP.

Particulars	Rs.	Rs.
<b>Income from house property</b>		
<b>Unit 1 – 50% floor area – Let out</b>		
Expected rent = 50% of [Higher of fair rent (2,48,000) or municipal value (1,88,000), but restricted to standard rent (2,28,000)] (ER)	1,14,000	
Actual rent for 10 months @ 15,000 p.m. less unrealized rent of 3,000 since conditions of Rule 4 are satisfied (AR) <sup>1</sup>	1,47,000	
GAV = AR since it is > ER even after vacancy and, hence, vacancy allowance is not relevant	1,47,000	
Less: Municipal taxes @ 50% of 20,000 (assuming these are paid by Ramesh during the PY)	(10,000)	
Net annual value	1,37,000	
Less: Deduction u/s 24:		
Standard deduction @ 30% of NAV	(41,100)	
Interest on borrowed capital = 50% of 60,000	(30,000)	65,900
<b>Unit 3 – 25% floor area – Self occupied</b>		
Net annual value	Nil	
Less: Deduction u/s 24(b) for interest on borrowed capital = 25% of 60,000	(15,000)	(15,000)
		50,900
<b>Profits and gains of business or profession - Unit 2 – 25% floor area</b>		
Income from business (without debiting related expenditure)	1,40,000	
Less: Expenditure:		
Municipal taxes @ 25% of 20,000 (assuming section 43B is complied with (para 118))	(5,000)	
Repairs @ 25% of 5,000	(1,250)	
Interest on loan @ 25% of 60,000 (assuming section 43B is complied with (para 118))	(15,000)	
Ground rent @ 25% of 6,000	(1,500)	
Fire insurance premium @ 25% of 60,000	(15,000)	1,02,250
<b>Taxable income</b>		<b>1,53,150</b>

*Mistake by students – Wrong computation of business income from Unit 2. Treatment of expenses in this respect wrongly done.*

**B28. SOP/UOP & LOP FOR PORTION – CA2013(NOV), CA2008(NOV) –** Krishna owns a residential house in Delhi. The house is having two identical units. First unit of the house is self-occupied by Krishna and another unit is rented for Rs. 12,000 p.m. Rented unit was vacant for 3 months during the year. Particulars of the house for PY 2022-23 are as under:

Particulars	Amount
Standard rent	2,20,000 p.a.
Municipal valuation	2,44,000 p.a.
Fair rent	2,35,000 p.a.
Municipal tax paid by Krishna	12% of MV
Light and water charges	800 p.m.

<sup>1</sup> Alternatively, unrealized rent can be deducted from GAV instead of annual rent and a suitable note given in the answer. Refer para 80.2 of Concepts Book for the alternative approach.

Interest on borrowed capital	2,000 p.m.
Insurance charges	3,500 p.a.
Painting expenses	16,000 p.a.
Repairs	12,000 p.a.

Compute IHP for AY 2023-24.

Computation of income from house property in the hands of Krishna for AY 2023-24

Computation	LOP unit	SOP unit
Expected rent = 50% of [Higher of fair rent (2,35,000) or municipal value (2,44,000), but restricted to standard rent (2,20,000)] (ER)	1,10,000	-
Actual rent for 9 months (AR)	1,08,000	-
GAV for LOP Unit = AR (on account of vacancy allowance since AR is < ER owing to vacancy; without vacancy, AR of 1,44,000 would have been > ER of 1,10,000)	1,08,000	-
Less: Municipal taxes (50% of 12% of 2,44,000)	(14,640)	-
Net annual value	93,360	-
Less: Deductions u/s 24:		
• Standard deduction @ 30% of NAV	(28,008)	-
• Interest on borrowed capital = 50% of (2,000 × 12)	(12,000)	(12,000)
<b>Income from house property</b>	<b>53,352</b>	<b>(12,000)</b>
<b>Total Income from house property</b>	<b>41,352</b>	

**B29. SOP/UOP & LOP (PORTION + PART OF YEAR)** – Mr. X and Mr. Y, brothers, own a house each with a ground and first floor of equal area. The construction of these houses was completed on 1.4.2022 and 1.10.2022, respectively. While Mr. X used the house for self residence, Mr. Y, resided in ground floor and let out the first floor immediately from the date the construction was complete. The tenant vacated the house after 3 months after which Mr. Y occupied the first floor as well for his residence. Other particulars:

Particulars	Mr. X	Mr. Y
Monthly rent for floor let out	-	40,000
Fair rent p.a. for each floor	2,00,000	2,00,000
Municipal value p.a. for each floor	1,50,000	1,50,000
Municipal taxes paid by owner for the house	20,000	20,000
Repair, maintenance and insurance for the house	10,000	15,000
Housing loan from Bank of India for construction of house @ 10% p.a. (fully outstanding on 31.3.2023)	Loan taken on 1.4.2020 for Rs. 20 lakh	Loan taken on 1.7.2021 for Rs. 12 lakh

Compute the income from house property for AY 2023-24.

Computation of income from house property in the hands of Mr. X for AY 2023-24

Computation of house treated as SOP	Rs.	Rs.
Annual value: Nil as house is self occupied		-
Less: Deductions u/s 24(b) for interest:		
• Current year interest = 10% p.a. of 20 lakh	2,00,000	
• Prior period interest from the date of borrowing (1.4.2020) to 31 March immediately preceding the date of completion of acquisition or construction (31.3.2022) = 10% p.a. of 20 lakh for 2 years = 4 lakh. Deductible in 5 instalments.	80,000	
Deduction restricted to 2 lakh as loan taken for construction of SOP, loan taken on or after 1.4.1999, construction completed within 5 years from the end of FY in which loan taken and assuming Mr. X furnishes the requisite certificate from the lender.		(2,00,000)
<b>Income from house property</b>		<b>(2,00,000)</b>

Computation of income from house property in the hands of Mr. Y for AY 2023-24

Ground floor is treated as SOP. Since first floor is self occupied for part of PY and let out for part of PY, it is treated as LOP.

Computation	GF (SOP)	FF (LOP)
Gross annual value:		
First floor: Self occupied and let out for part of year		

• Expected rent for 6 months (from 1.10.2022) = Higher of fair rent (1,00,000) or municipal value (75,000) (ER)		1,00,000
• Actual rent = 40,000 p.m. for 3 months (AR)		1,20,000
• Higher of ER or AR		1,20,000
Ground floor: Nil as it is self occupied	-	
Less: Municipal taxes paid by Mr. Y during the year (50% for first floor)	-	(10,000)
Net annual value	-	1,10,000
Less: Deductions u/s 24:		
• Standard deduction u/s 24(a) of 30%	-	(33,000)
• Interest on borrowed capital u/s 24(b): See note	(69,000)	(69,000)
<b>Income from house property</b>	<b>(69,000)</b>	<b>8,000</b>
<b>Income from house property</b>		<b>(61,000)</b>

*Note:* Interest is fully deductible for LOP. Enhanced deduction of 2 lakh is available for SOP as loan taken for construction of SOP, loan taken on or after 1.4.1999, construction completed within 5 years from the end of FY in which loan taken and assuming Mr. X furnishes the requisite certificate from the lender.

Current year interest = 10% p.a. of 12 lakh = 1,20,000. Prior period interest from the date of borrowing (1.7.2021) to 31 March immediately preceding the date of completion of acquisition or construction (31.3.2022) = 10% p.a. of 12 lakh for 9 month = 90,000. Deductible in 5 annual instalments of 18,000 each. Total interest = 1,38,000 (69,000 for each floor).

**B30. SOP + LOP – CA2017(NOV)** - Aditya, a RNOR during AY 2023-24, owns two houses, one in Dubai and other in Mumbai. House in Dubai is let out at a rent of DHS 20,000 p.m. (1 DHS = INR 18). Entire rent is received in India. He paid property tax of DHS 2,500 and sewerage tax of DHS 1,500 there for FY 2022-23. House in Mumbai is self occupied. He had taken a loan of Rs. 25 lakh to construct the house on 1.6.2019 @ 12%. Construction was completed on 31.5.2021 and he occupied the house on 1.6.2021. Entire loan is outstanding as on 31.3.2023. Property tax paid in respect of second house is Rs. 2,400 for FY 2022-23. Compute IHP for AY 2023-24.

*Computation of income from house property in the hands of Aditya for AY 2023-24*

Although income from Dubai house accrues/arises outside India and Aditya is a RNOR, it will be taxable in India on receipt basis. Income from Mumbai house accrues/arises and is received in India and, is thus, taxable in India.

Computation	Dubai (LOP)	Mumbai (SOP)
GAV (Dubai house) = 20,000 DHS × 12 months × 18 INR (Actual Rent is taken as GAV in absence of values pertaining to Expected Rent)	43,20,000	-
Less: Municipal taxes paid by Aditya during PY for Dubai house = (2,500 + 1,500) × 18. Municipal taxes are deemed to include service taxes like sewerage tax.	(72,000)	-
NAV	42,48,000	-
Less: Deductions u/s 24:		
• Standard deduction @ 30% of NAV	(12,74,400)	-
• Interest on borrowed capital for Mumbai house: See note	-	(2,00,000)
<b>Income from house property</b>	<b>29,73,600</b>	<b>(2,00,000)</b>
<b>Total income from house property</b>		<b>27,73,600</b>

*Note:* Current year interest = 12% of 25 lakh = 3,00,000. Prior period interest from the date of borrowing (1.6.2019) to 31 March immediately preceding the date of completion of acquisition or construction (31.3.2021) for 22 months = 5,50,000. Deductible in 5 equal instalments from PY 2021-22 of Rs. 1,10,000. Total interest = 4,10,000. This is deductible up to 2,00,000 as loan taken for construction of SOP, loan taken on or after 1.4.1999, construction completed within 5 years from the end of FY in which loan taken and assuming Aditya furnishes the requisite certificate from the lender.

**B31. SOP + LOP – Ronny** is a citizen of Denmark and a resident but not ordinarily resident in India for PY 2022-23. He has two houses in Denmark, one used as his residence and the other let out at 10,000 Kroner p.m. 1 Krone = Rs. 12.

He purchased a house in Chandigarh on 1.7.2022 for residence while in India. He came to India on 1.12.2022 and was in India for 80 days. Fair rent and municipal valuation of the house is Rs. 2,50,000 p.a. and Rs. 2,00,000 p.a., respectively. He paid Rs. 10,000 as municipal taxes for this house on 15.12.2022. He purchased the house using a loan of Rs. 25,00,000 taken from Dena Bank on 1.1.2022 @ 10% p.a. The loan is fully outstanding as on 31.3.2023.

He also owns a house in Coimbatore which he has let out at Rs. 50,000 p.m. Fair rent, municipal valuation and standard rent are Rs. 4,50,000 p.a., Rs. 4,25,000 p.a. and Rs. 4,00,000, respectively. Municipal tax is levied at 5% which was paid on 15.4.2023. This house



was acquired using a loan of Rs. 30,00,000 taken from his friend, residing in Denmark and a non-resident, at 10% p.a. interest. Loan was taken on the same date the house was acquired and it is fully outstanding as on 31.3.2023.

Compute the income from house property for AY 2023-24.

■

*Computation of Income from House Property in the hands of Ronny for AY 2023-24*

Since Ronny is a RNOR, income from houses situated in Denmark is not taxable in India as it is neither accrued nor received in India. Income from houses situated in India is taxable in India.

Particulars	Chandigarh (SOP)	Coimbatore (LOP)
Expected rent (higher of fair rent or municipal value, but restricted to standard rent) (ER)	-	4,00,000
Actual rent received or receivable (AR)	-	6,00,000
Gross annual value = Higher of ER or AR	-	6,00,000
Less: Municipal taxes paid by owner during PY 2022-23	-	-
Net annual value	-	6,00,000
Less: Deductions u/s 24:		
• Standard deduction @ 30% of NAV	-	(1,80,000)
• Interest on borrowed capital (see note)	(2,00,000)	(3,00,000)
<b>Income from house property</b>	<b>(2,00,000)</b>	<b>1,20,000</b>
<b>Total</b>	<b>(80,000)</b>	

*Note: Chandigarh house:* Current year interest = 10% p.a. of Rs. 25,00,000 = Rs. 2,50,000. Prior period interest from the date of borrowing (1.1.2022) to 31 March immediately preceding the date of completion of acquisition or construction (31.3.2022) = 10% p.a. of Rs. 25,00,000 for 3 months = Rs. 62,500. Deduction in 5 instalments of Rs. 12,500 each. Total interest for PY 2022-23 = Rs. 2,62,500. Allowed up to Rs. 2,00,000 u/s 24(b) as loan taken for acquisition of SOP, loan taken on or after 1.4.1999, acquisition completed within 5 years from the end of FY in which loan taken and assuming Ronny furnishes the requisite certificate from the lender.

*Coimbatore house:* Current year interest = 10% p.a. of Rs. 30,00,000 = Rs. 3,00,000. There is no prior period interest as loan is taken on the date of acquisition. Interest is fully deductible assuming conditions of section 25 of deduction of interest payable outside India have been satisfied.

**B32. CO-OWNER – CA2009(NOV) - Raman is a co-owner of a house property along with his brother.**

Particulars	Amount
Municipal value of the property	1,60,000
Fair rent	1,50,000
Standard rent under the Rent Control Act	1,70,000
Rent received	15,000 p.m.

Loan for construction of this property is jointly taken and interest charged by the bank is Rs. 25,000 out of which Rs. 21,000 has been paid. Interest on unpaid interest is Rs. 450. To repay this loan, Raman and his brother have taken a fresh loan and interest charged on this loan is Rs. 5,000. Municipal taxes of Rs. 5,100 have been paid by the tenant. Compute IHP chargeable in the hands of Raman for AY 2023-24.

■

*Computation of Income from House Property in the hands of Raman for AY 2023-24*

Particulars	Rs.	Rs.
Expected rent (higher of fair rent or municipal value, but restricted to standard rent) (ER)		1,60,000
Actual rent (AR)		1,80,000
Gross annual value = Higher of ER or AR		1,80,000
Less: Municipal taxes (not deductible since paid by tenant)		-
Net annual value		1,80,000
Less: Deductions u/s 24:		
Standard deduction @ 30% of NAV		(54,000)
Interest on borrowed capital:		
• Interest on loan taken from bank	(25,000)	
• Interest on unpaid interest: Not deductible	-	
• Interest on fresh loan to repay old loan	(5,000)	(30,000)
Income from house property		96,000
<b>50% share taxable in the hands of Raman (assuming co-owners have equal share)</b>		<b>48,000</b>

**B33. CO-OWNER** – Ram and Shyam own a self occupied residential house property in Jodhpur, having share in the ratio 60 : 40. Shyam owns another house in Meerut in which his parents reside. Ram and Shyam had taken a loan of Rs. 45,00,000 from Canara Bank on 15.8.2021 @ 10% p.a. interest, to purchase the property in Jodhpur. House was purchased on 25.8.2021. In addition, Shyam had also taken a loan of Rs. 5,00,000 from SBI on 10.10.2020 @ 10% p.a. interest for repair of house in Meerut. Both loans are fully outstanding as on 31.3.2023. Expected rental value of house in Jodhpur and Meerut is Rs. 15,00,000 p.a. and Rs. 10,00,000 p.a., respectively. Municipal taxes of Rs. 15,000 were paid during the year for house in Jodhpur. Ram failed to pay municipal taxes of Rs. 7,500 for Meerut house. Compute income from house property in the hands of Ram and Shyam for AY 2023-24.

■ *Computation of Income from House Property in the hands of Ram and Shyam for AY 2023-24*

Particulars	Ram	Shyam
Net annual value	Nil	Nil
Less: Interest on capital borrowed:		
• Jodhpur house: Interest = 10% of 45 lakh, i.e., 4.5 lakh. Ram = 2.7 lakh. Shyam = 1.8 lakh	(2,70,000)	(1,80,000)
• Meerut house: Interest = 10% of 5 lakh, i.e., 50,000 (deductible up to 30,000)		(30,000)
<b>Income from house property (overall interest deduction cannot exceed 2 lakh)</b>	<b>(2,00,000)</b>	<b>(2,00,000)</b>

Note: Interest on loan for Jodhpur house is deductible up to Rs. 2 lakh as loan is taken for acquisition of SOP, loan is taken on or after 1.4.1999, construction is completed within 5 years from the end of FY in which loan taken and assuming the assessee furnishes the requisite certificate from the lender. Interest on loan for Meerut house is deductible up to Rs. 30,000 as loan is taken for repair. Overall limit of deduction is limited to Rs. 2 lakh. Both Ram and Shyam are individually entitled to the benefit of Nil NAV and deduction of interest up to the limit of Rs. 2 lakh.

**B34. CO-OWNER** – Raghav and Madhav are friends and co-owners (having equal share) of a house property situated in Panaji having four identical floors. Each of them has self occupied one floor. Other floors have been let out. Fair rent of the house is Rs. 1,00,000 p.m. while each floor is actually let out at Rs. 30,000 p.m. Standard rent of the house under the Rent Control Act is Rs. 90,000 p.m. Municipal taxes were levied at 5% of the municipal value of Rs. 10,00,000 p.a. but were paid during the year to the extent of 60%. Insurance premium and other expenses for the house amounted to Rs. 50,000. Raghav and Madhav also spent Rs. 20,000 towards repairs of the house. They had taken a loan of Rs. 20,00,000 on 1.4.2021 for renovation of the house. The loan carries interest @ 10% p.a. Repayment of principal has not yet started. Both the let out floors were vacant for one month each during the year. Compute income from house property for AY 2023-24 in the hands of Raghav and Madhav.

■ *Computation of Income from House Property in the hands of Raghav and Madhav for AY 2023-24*

Particulars	Raghav	Madhav
Self occupied floors (50% portion)		
• Net annual value	Nil	Nil
• Less: Interest on borrowed capital u/s 24(b) = 50% of 10% of 20 lakh = 1 lakh. Deduction is limited to 30,000 as loan is not taken for acquisition or construction.	(30,000)	(30,000)
• Income from house property (loss)	(30,000)	(30,000)
Let out floors (50% portion) (see Note)	1,75,750	1,75,750
<b>Income from house property</b>	<b>1,45,750</b>	<b>1,45,750</b>

Note:

Particulars for 50% portion let out	Rs.
Expected rent = 50% of [Higher of fair rent (12 lakh) or municipal value (10 lakh), but restricted to standard rent (10.8 lakh)] (ER)	5,40,000
Actual rent for 11 months @ 60,000 p.m. (AR)	6,60,000
GAV = AR. Vacancy allowance is not applicable since AR (with or without vacancy) is > ER	6,60,000
Less: Municipal taxes = 60% paid of 50% (for 2 floors) of 5% of 10 lakh	(15,000)
Net annual value	6,45,000
Less: Deductions u/s 24:	
• Standard deduction @ 30% of NAV	(1,93,500)
• Interest on borrowed capital = 50% (for 2 floors) of 10% of 20 lakh. Fully deductible for LOP.	(1,00,000)
<b>Income from house property</b>	<b>3,51,500</b>
<b>Share of each co-owner @ 50%</b>	<b>1,75,750</b>

**B35. 25A** – Compute income from house property for AY 2023-24 from the details given below.

Particulars	Amount
Expected rent p.a.	3,00,000
Rent p.m.	20,000
Municipal taxes paid during the year by tenant	15,000
Interest on loan taken to purchase the house	50,000
Unrealized rent pertaining to PY 2018-19 recovered on 10.8.2022 (not deducted while computing IHP of PY 2018-19 since Rule 4 conditions were not satisfied)	30,000
Arrears of rent for PY 2021-22 received on 15.12.2022 (on account of retrospective increase of rent)	20,000

■  
Computation of income from house property

Particulars	Rs.	Rs.
Expected rent (ER)	3,00,000	
Actual rent received/receivable for the year (AR)	2,40,000	
GAV = Higher of ER or AR	3,00,000	
Less: Municipal taxes paid during the year by assessee	-	
NAV	3,00,000	
Less: Deductions u/s 24:		
• Standard deduction @ 30%	(90,000)	
• Interest on loan: Fully deductible for LOP	(50,000)	
		1,60,000
Unrealized rent recovered (not taxable since not deducted earlier)	-	
Arrears of rent received	20,000	
Less: Deduction @ 30%	(6,000)	14,000
<b>Income from house property</b>		<b>1,74,000</b>

**B36. SOP + LOP + 25A – CA2015(NOV)** - Raphael constructed a shopping complex. He had taken a loan of Rs. 25 lakh for construction of this property on 1.8.2020 from SBI @ 10% for 5 years. Construction was completed on 20.6.2021. Rental income received from shopping complex is Rs. 30,000 p.m. let out for whole year. Municipal taxes paid Rs. 8,000. Arrears of rent received from shopping complex Rs. 1,20,000. Interest paid on loan taken from SBI for purchase of house for use as own residence for the period 2022-23 is Rs. 3 lakh. Compute IHP for AY 2023-24.

■  
Computation of income from house property

Particulars	Shopping complex	Residential house
GAV: Taken as actual rent in absence of values pertaining to expected rent	3,60,000	-
Less: Municipal taxes paid by Raphael during the PY	(8,000)	-
NAV	3,52,000	Nil
Less: Deduction u/s 24:		
Standard deduction @ 30% of NAV	(1,05,600)	-
Interest on borrowed capital (shopping complex):		
• Current year interest = 10% of 25 lakh = 2,50,000 (assuming loan is fully outstanding)	(2,83,333)	
• Prior period interest from the date of borrowing (1.8.2020) to 31 March immediately preceding the date of completion of acquisition or construction (31.3.2021), i.e., for 8 months = 1,66,667. Deductible in 5 equal installments from PY 2020-21 onwards of Rs. 33,333 each.		
• Total interest = 2,83,333. Fully deductible for LOP.		
Interest on borrowed capital (residential house) = 3 lakh, deductible up to 2 lakh, assuming all conditions for claim of higher ceiling are satisfied.		(2,00,000)
	(36,933)	
Add: Arrears of rent received (assuming not taxed in the year to which it pertains) less 30% standard deduction = 1,20,000 – 36,000	84,000	
<b>Income from house property</b>	<b>47,067</b>	<b>(2,00,000)</b>
<b>Total income from house property</b>		<b>(1,52,933)</b>

**B37. SOP + 25A** – Vikas is a citizen of Australia who has stayed in India during PY 2022-23 for a period of 240 days. His stay in India during the preceding 7 PYs amounted to 775 days. He has been a non-resident in India for 5 of out 10 preceding PYs. He owns two house properties used for self occupation, one in Sydney and the other in Delhi. Fair rent of the house in Sydney is Rs. 20,00,000 (converted to INR) and that in Delhi is Rs. 15,00,000. He stayed in the house in Delhi while in India and stayed in the house in Sydney while in Australia for the rest of the year. He paid Rs. 40,000 (converted in INR) as municipal taxes in Sydney and Rs. 20,000 as municipal taxes in Delhi (out of which 8,000 was water tax). He constructed the house in Delhi using a home loan for Rs. 10,00,000 that he took from Dena Bank on 1.10.2020 @ 10% p.a. interest. The construction was completed on 10.5.2022. Loan is fully outstanding as on 31.3.2023. He also owned a house in Hyderabad which he had sold on 15.11.2019. In respect of this house, he received Rs. 75,000 as arrears of rent in respect of the PY 2019-20 which was not taxed in that year. Compute income from house property in the hands of Vikas for AY 2023-24.

*Computation of income from house property for AY 2023-24*

Vikas is in India for  $\geq 182$  days during PY 2022-23. He is neither a NR in 9 out of 10 preceding PYs nor in India for  $\leq 729$  days during the preceding 7 PYs. He is a ROR. Being a ROR, global income is taxable, i.e., income from all house properties. Vikas possesses two SOPs for which he can take benefit of Nil annual value. Arrears of rent for Hyderabad property is taxable after giving standard deduction of 30%.

Particulars	Sydney	Delhi
NAV	Nil	Nil
Less: Interest on borrowed capital u/s 24(b) for Delhi property:	Nil	(1,30,000)
<ul style="list-style-type: none"> <li>• Current year interest = 10% of 10 lakh, i.e., 1,00,000</li> <li>• Prior period interest from the date of borrowing (1.10.2020) to 31 March immediately preceding the date of completion of acquisition or construction (31.3.2022) = 10% of 10 lakh for 1.5 years = 1,50,000. Deductible from PY 2022-23 onwards in 5 equal installments of Rs. 30,000 each.</li> <li>• Total interest deductible = 1,00,000 + 30,000 = 1,30,000.*</li> </ul>		
<b>Income from house property</b>	<b>Nil</b>	<b>(1,30,000)</b>

\*Deductible up to a limit of Rs. 2 lakh as loan is taken for construction of SOP, loan is taken on or after 1.4.1999, construction is completed within 5 years from end of FY in which loan taken and assuming Vikas furnishes the requisite certificate from the lender.

Computation of income from Hyderabad property	Rs.
Arrears of rent received taxable u/s 25A even if Vikas is no more the owner of the property	75,000
Less: Standard deduction @ 30%	(22,500)
<b>Income from house property</b>	<b>52,500</b>

Total income from house property = 52,500 – 1,30,000 = Loss of 77,500.

**B38. 25A – CA2012(MAY)** – Explain the treatment of unrealized rent and its recovery in subsequent years under the provisions of Income-tax Act, 1961. – See para 85 of Concepts Book

**B39. COMPOSITE RENT – CA2021(DEC)** – Mr. Ravi, a resident and ordinarily resident in India, owns a let out house property having different flats in Kanpur which has municipal value of Rs. 27,00,000 and standard rent of Rs. 29,80,000. Market rent of similar property is Rs. 30,00,000. Annual rent was Rs. 40,00,000 which includes Rs. 10,00,000 pertaining to different amenities provided in the building. One flat in the property (annual rent is Rs. 2,40,000) remains vacant for 4 months during the previous year. He has incurred following expenses in respect of aforesaid property:

Municipal taxes of Rs. 4,00,000 for the financial year 2022-23 (10% rebate is obtained for payment before due date). Arrears of municipal tax of FY 2021-22 paid during the year of Rs. 1,40,000 which includes interest on arrears of Rs. 25,000.

Lift maintenance expenses of Rs. 2,40,000 which includes a payment of Rs. 30,000 which is made in cash.

Salary of Rs. 88,000 paid to staff for collecting house rent and other charges.

Compute the total income of Mr. Ravi for AY 2023-24 assuming that Mr. Ravi has not opted for the provisions under section 115BAC.

*Computation of total income of Mr. Ravi for AY 2023-24*

Since this is a case of letting of building along with amenities (services), rent for building will be dealt with under the head IHP and charges for services will be dealt with under the head PGBP or IFOS, as the case may be. It is recommended to attempt computation of income under PGBP/IFOS after studying the Chapters on PGBP/IFOS.

Particulars	Rs.	Rs.
<b>Income from house property</b>		
Expected rent = Higher of fair rent (30,00,000) or municipal value (27,00,000), but restricted to standard rent (29,80,000) (ER) <sup>2</sup>	29,80,000	
Actual rent = 30,00,000 (excluding amenity charges) – 60,000 for 4 months vacancy of a flat <sup>3</sup> (AR)	29,40,000	
GAV = AR (vacancy allowance is available as AR of 29,40,000 is < expected rent of 29,80,000 owing to vacancy; without vacancy, AR of 30,00,000 was not < ER)	29,40,000	
Less: Municipal taxes paid by Ravi during the PY = 3,60,000 for FY 2022-23 (4,00,000 – 10% rebate) <sup>4</sup> + 1,15,000 arrears of FY 2021-22 (excluding interest on arrears).	(4,75,000)	
Net annual value	24,65,000	
Less: Standard deduction u/s 24(a) @ 30% of NAV	(7,39,500)	
		17,25,500
<b>Income from other sources or Profits and Gains of Business or Profession, as the case may be</b>		
Charges for amenities: 10,00,000 – 20,000 less loss due to vacancy <sup>5</sup>	9,80,000	
Less: Expenses:		
• Lift maintenance expenses = 2,40,000 – 30,000 disallowed as paid in cash exceeding 10,000	(2,10,000)	
• Salary to staff = 88,000 × (10 lakh / 40 lakh) <sup>6</sup>	(22,000)	
		7,48,000
<b>Total income</b>		<b>24,73,500</b>

### COMPREHENSIVE

**B40. CA2019(MAY)** – Mr. Madhvan is a finance manager in Star Private Limited. He gets a salary of Rs. 30,000 per month. He owns two houses, one of which has been let out to his employer and which is in-turn provided to him as rent free accommodation. Following details (annual) are furnished in respect of two house properties for FY 2022-23.

Particulars	House 1	House 2
Fair rent	75,000	1,95,000
Actual rent	65,000	2,85,000
Municipal valuation	74,000	1,90,000
Municipal taxes paid	18,000	70,000
Repairs	15,000	35,000
Insurance premium for building	12,000	17,000
Ground rent	7,000	9,000
Nature of occupation	Let out to Star Pvt Ltd	Let out to Ms. Puja

Rs. 17,000 was paid as interest on loan taken by mortgaging House 1 for construction of House 2. Determine the taxable income of Mr. Madhvan for AY 2023-24. All workings should form part of your answer.

#### Computation of taxable income of Mr. Madhvan for AY 2023-24

Particulars	Rs.	Rs.	Rs.
<b>Income from salaries</b>			
Basic salary		3,60,000	
Rent free accommodation hired by employer: Lower of (a) lease rental of Rs. 65,000 or (b) 15% of salary being Rs. 54,000 (15% of Rs. 3,60,000)		54,000	
Gross salary		4,14,000	
Less: Standard deduction u/s 16(ia)		(50,000)	3,64,000

<sup>2</sup> Assuming these figures pertain to the house property alone (i.e., without considering amenities).

<sup>3</sup> Annual rent of 2,40,000 is assumed to include proportionate amount of amenity charges. Thus, annual rent (excluding amenity charges) = 3/4<sup>th</sup> of 2,40,000 = 1,80,000. Rent for 4 months of vacancy = 60,000.

<sup>4</sup> Assuming the amount of Rs. 4,00,000 is before rebate.

<sup>5</sup> Annual rent of 2,40,000 is assumed to include proportionate amount of amenity charges. Thus, amenity charges = 1/4<sup>th</sup> of 2,40,000 = 60,000. Charges for 4 months of vacancy = 20,000.

<sup>6</sup> Since salary is paid both for collecting house rent and other charges, expense is split based on the criteria of income arising from house property and amenity charges. Since salary is paid to staff, it should ordinarily not be based on actual collection. Hence, expense is split on the basis of proportion of annual rent and amenity charges without considering actual rent based on vacancy, i.e., in the ratio of 3:1.

Income from house property:	House 1	House 2	
Expected rent (higher of fair rent or municipal value) (ER)	75,000	1,95,000	
Actual rent (AR)	65,000	2,85,000	
Gross annual value = Higher of ER or AR	75,000	2,85,000	
Less: Municipal taxes paid during PY by Mr. Madhvan	(18,000)	(70,000)	
Net annual value	57,000	2,15,000	
Less: Deductions u/s 24:			
• Standard deduction @ 30% of NAV	(17,100)	(64,500)	
• Interest on borrowed capital	Nil	(17,000)	
Income from house property	39,900	1,33,500	1,73,400
<b>Taxable income</b>			<b>5,37,400</b>

*Mistake by students – Considered House 1 as self occupied property.*

**B41. MASTER QUESTION** – Shyamal, a resident in India, aged 35 years, works as a manager in Chandigarh with Sure Ltd. He owns four properties but has to reside in Chandigarh in a flat not belonging to him. He gifted the Delhi house to his wife on 1 October 2022. Compute IHP for AY 2023-24 from the following information.

Particulars	Delhi	Gurgaon – Unit 1 (50% portion)	Gurgaon – Unit 2 (50% portion)	Patna (equally co-owned with brother)	Shimla
Use of property	His wife resides when not let out	His children reside	Let out	His parents reside	Unoccupied (since he works in Chandigarh)
Fair rent p.a.	3,00,000	3,00,000		3,00,000	3,00,000
Municipal value p.a.	2,50,000	2,50,000		2,50,000	2,50,000
Standard rent p.a.	2,60,000	2,60,000		2,60,000	2,60,000
Let out for	2 months	-	8 months	-	-
Rent p.m.	30,000	-	15,000	-	-
Unrealized rent (Rule 4 conditions satisfied)	-	-	2 months	-	-
Municipal taxes paid during year by Shyamal	10%	10% (50% paid)		10%	10% (paid by tenant)
Maintenance	20,000	10,000	10,000	20,000	20,000
Loan taken for	Renewal	Construction		Repaying original loan for repair	Construction
Work completed	1.5.2012	1.5.2021		1.5.2012	1.5.2017
Loan amount	10,00,000	50,00,000		10,00,000	30,00,000
Loan taken on	1.7.1999	1.10.2020		1.7.1999	1.7.2010
Loan taken from	Bank	Financial institution		Friend	NBFC
Loan status on 31.3.23	Fully O/S	Repaid fully on 30.9.2022*		Fully O/S	Fully O/S
Interest rate	10% p.a.	10% p.a.		10% p.a.	10% p.a.
Interest paid	90,000	3,00,000 (+ 900 penal interest)		-	3,20,000
Penal interest	-	-		-	-
Arrears of rent of 2007	-	-	30,000	-	-

\*No repayment of principal was made before this date.

#### Computation of income from Delhi and Gurgaon (Unit 2) houses

Delhi house is let out for 2 months and self-occupied for rest of the year – it will be treated as LOP. Income therefrom will be taxed in the hands of Shyamal as he is deemed owner u/s 27 since he has transferred the house to his wife without adequate consideration. Gurgaon Unit 2 is let out.

Particulars	Delhi (LOP)	Gurgaon – Unit 2 (50% portion) (LOP)
Expected rent (higher of fair rent or municipal value, but restricted to standard rent) (50% values for Gurgaon) (ER)	2,60,000	1,30,000
Actual rent of 2 months for Delhi; Actual rent of 8 months – Unrealized rent of 2 months	60,000	90,000

for Gurgaon as Rule 4 conditions are satisfied (AR)		
Gross annual value for Delhi = Higher of ER or AR	2,60,000	-
Gross annual value for Gurgaon = AR. Vacancy allowance is available since AR of 90,000 is < ER of 1,30,000 owing to vacancy; AR without vacancy of 1,50,000 would have been ≥ ER of 1,30,000)	-	90,000
Less: Municipal taxes paid by Shyamal during PY: 10% of 2,50,000 for Delhi; 50% (portion) of 50% (paid) of 10% of 2,50,000 for Gurgaon	(25,000)	(6,250)
<b>Net annual value</b>	<b>2,35,000</b>	<b>83,750</b>
Less: Deductions u/s 24:		
Standard deduction @ 30% of NAV	(70,500)	(25,125)
Interest on borrowed capital:		
Delhi - 10% of 10 lakh (fully deductible for LOP)	(1,00,000)	
Gurgaon: Current year = 10% p.a. of 50 lakh for 6 months (till 30.9.2022) = 2,50,000 Prior period interest from the date of borrowing (1.10.2020) to 31 March immediately preceding the date of completion of construction (31.3.2021) = 10% p.a. of 50 lakh for 6 months = 2,50,000. Deductible in 5 equal instalments of 50,000 from PY 2021-22. Total interest = 3,00,000. 50% share for Unit 2 = 1,50,000 (fully deductible for LOP)		(1,50,000)
Arrears of rent (assuming not taxed in the year to which it pertains) = 30,000 – standard deduction of 30%		21,000
<b>Income from house property</b>	<b>64,500</b>	<b>(70,375)</b>

*Computation of income from Gurgaon (Unit 1), Patna and Shimla houses*

Gurgaon Unit 1 and Patna houses are self-occupied (SOP) while Shimla house is unoccupied (UOP) as Shyamal has to stay in Chandigarh in a building not belonging to him due to employment. He can choose any 2 houses as SOP/UOP. The third house will be treated as DLOP. Selection is done as given below:

*Step 1: Compute income from each property assuming it is SOP/UOP*

Computation	Gurgaon Unit 1 (50% portion)	Patna (co-owned)	Shimla
Net annual value	Nil	Nil	Nil
Less: Interest on borrowed capital:			
Gurgaon - See computation above for Gurgaon Unit 2*	(1,50,000)		
Patna – 10% of 10 lakh is 1 lakh. 50% co-owner share is 50,000. Deductible up to 30,000 for each co-owner as loan is taken for repair of SOP. It is assumed that interest is payable equally by co-owners.		(30,000)	
Shimla – Current year interest is 10% of 30 lakh, i.e., 3 lakh. Deductible up to 30,000 since construction is completed after 5 year from end of FY of taking loan. Hence, enhanced limit of 2 lakh is not available. Prior period interest is not deductible in PY 2022-23 since 5 installments starting from PY 2017-18 are over.			(30,000)
<b>Income from house property</b>	<b>(1,50,000)</b>	<b>(30,000)</b>	<b>(30,000)</b>

\*Deductible up to Rs. 2 lakh as loan is taken for construction of SOP, loan is taken on or after 1.4.1999, construction is completed within 5 years from the end of FY in which loan taken and assuming Shyamal furnishes the requisite certificate from the lender.

*Step 2: Compute income from each property assuming it is DLOP*

Computation	Gurgaon Unit 1 (50% portion)	Patna (co-owned)	Shimla
Expected rent (higher of fair rent or municipal value, but restricted to standard rent) (ER) (50% values for Gurgaon)	1,30,000	2,60,000	2,60,000
Actual rent	N/A	N/A	N/A
Gross annual value = ER	1,30,000	2,60,000	2,60,000
Less: Municipal taxes paid by Shyamal during PY: 10% of 2,50,000 for Patna; 50% (portion) of 50% (paid) of 10% of 2,50,000 for Gurgaon	(6,250)	(25,000)	-
Net annual value	1,23,750	2,35,000	2,60,000

<i>Less: Deductions u/s 24:</i>			
Standard deduction @ 30% of NAV	(37,125)	(70,500)	(78,000)
Interest on borrowed capital (fully deductible for DLOP):			
<i>Gurgaon:</i> See computation above for Gurgaon Unit 2	(1,50,000)		
<i>Patna:</i> 10% of 10 lakh is 1 lakh		(1,00,000)	
<i>Shimla:</i> Current year interest is 10% of 30 lakh, i.e., 3 lakh. Prior period interest is not deductible in PY 2022-23 since 5 installments starting from PY 2017-19 are over.			(3,00,000)
		64,500	
<b>Income from house property (50% co-owner share for Patna house)</b>	<b>(63,375)</b>	<b>32,250</b>	<b>(1,18,000)</b>

*Step 3: Create combinations of properties (where any 2 are treated as SOP/UOP and others are treated as DLOP) and compute the income under the head IHP for each combination.*

Computation	Option 1		Option 2		Option 3	
Gurgaon Unit 1	SOP	(1,50,000)	SOP	(1,50,000)	DLOP	(63,375)
Patna	SOP	(30,000)	DLOP	32,250	SOP	(30,000)
Shimla	DLOP	(1,18,000)	SOP	(30,000)	SOP	(30,000)
<b>Total</b>		<b>(2,98,000)</b>		<b>(1,47,750)</b>		<b>(1,23,375)</b>

It should be ensured that total interest deduction of both SOP properties does not exceed the overall limit of 2 lakh in either Option. Option 1 is most tax efficient. Thus, Gurgaon Unit 1 and Patna houses should be treated as SOP and Shimla house should be treated as DLOP.

*Computation of income chargeable under the head 'Income from house property'*

Particulars	Rs.
Delhi	64,500
Gurgaon Unit 1	(1,50,000)
Gurgaon Unit 2	(70,375)
Patna	(30,000)
Shimla	(1,18,000)
<b>Total income from house property</b>	<b>(3,03,875)</b>

## MCQ

### BASIS OF CHARGE & COMPUTATION

**M1.** Lease rent for vacant site is taxable under the head:

- (a) IHP (b) PGBP or IHP  
(c) IFOS or PGBP (d) IFOS or IHP

**M2.** Income from which of the following use case of a building is taxable under the head IHP?

- (a) Letting of office premises to a tenant (b) Use of factory premises for own manufacturing business  
(c) Sub-letting of house to a tenant (d) Use of first floor of own house as office of own business

**M3.** Annual value of building held as stock-in-trade is taxable as business income.

- (a) True (b) False

**M4.** Shane is a non-resident and a national of Australia. Which of his following incomes from property owned by him, is taxable in India?

- (a) Rent from house in Sydney received there (b) Rent from house in Delhi, occupied by Rachel, a resident of Australia, received in Sydney  
(c) Rent from shop in Sydney occupied by Rahul, a resident of India, received in Sydney (d) Fair market rent of a flat in Sydney owned and used by him to run his business with clients in India

**M5.** Mr. Jain moved to Mumbai. He took a property on rent for his residential purpose. However, the property was not fully occupied by him. He let out the property to his friend at Rs. 15,000 p.m. from 1.4.2022 to 31.3.2023. He is of the view that income from sub-letting of property is taxable as IHP. Whether his view is correct?



- (a) Correct as any income from a house property is taxable as IHP
- (b) Incorrect as he is not the owner of property let out by him. Income from subletting shall be taxable as PGBP
- (c) Incorrect as he is not the owner of property let out by him. Income from subletting shall be taxable as IFOS
- (d) Correct as income from subletting of a property is directly attributable to the property itself and, hence, chargeable to tax as IHP
- M6.** If Raj owns three houses of which two are self-occupied and one is unoccupied since he resides in another city where he stays on rent, what options are available to him under the Act?
- (a) He can select any 2 houses as SOP once and then the same treatment will apply to future years
- (b) 2 houses will be treated SOP in the order of time they were purchased
- (c) He can select any 2 houses as SOP and the selection can be changed every year
- (d) All the houses will be treated as SOP
- M7.** Rishi owns 3 houses. The house in Delhi is used for own residence. His parents reside in the house in Mumbai. His elder son resides in his flat in Gurgaon. Which of the following is correct?
- (a) Annual value of Delhi and Mumbai houses is Nil
- (b) Annual value of all houses is Nil
- (c) Annual value of any two houses is Nil as opted by him
- (d) Annual value of Mumbai and Gurgaon houses is Nil
- M8.** Ravi carries on his profession in Chennai where he stays on rent. He owns a flat in Jodhpur in which his parents reside. Before coming to Chennai, he used to reside in his other flat in Delhi which now remains unoccupied. The annual value of his flats is:
- (a) Nil for both flats
- (b) Nil for Jodhpur flat only
- (c) Nil for Delhi flat only
- (d) Fair rent for both the flats
- M9.** Ruhi owns four houses which are self-occupied during the year. However, one of the flats is let out on rent for one month. What will be the tax treatment for the flats?
- (a) SOP/UOP (3 houses), LOP (1 house)
- (b) SOP/UOP (3 houses), DLOP (1 house)
- (c) SOP/UOP (2 houses), DLOP (1 house), LOP (1 house)
- (d) DLOP (3 houses), LOP (1 house)
- M10.** Fair rent of a let out flat is Rs. 2 lakh, municipal value is Rs. 1 lakh and Standard Rent is Rs. 1.5 lakh. Gross annual value will be:
- (a) 2 lakh
- (b) 1.5 lakh
- (c) 1 lakh
- (d) Nil
- M11.** How is unrealized rent treated?
- (a) Deducted from expected rent
- (b) Deducted from actual rent
- (c) Deducted from net annual value
- (d) Deducted from both expected and actual rent
- M12.** Rishi lets out his house @ 20,000 p.m. whose fair rent is Rs. 2 lakh p.a. and municipal value is Rs. 1.5 lakh p.a. Rent for 3 months could not be realized. He has evicted the tenant and taken all legal steps to recover the rent. The gross annual value will be:
- (a) 1.8 lakh
- (b) 2 lakh
- (c) 1.5 lakh
- (d) 2.4 lakh
- M13.** Raja could not realize rent of 2 months from his tenant. He has evicted the tenant from the flat in which he was residing but he is still occupying a shop belonging to Raja. Raja will get benefit of deduction of unrealized rent.
- (a) True
- (b) False
- M14.** In which of the following cases is vacancy allowance available?
- (a) Property is self-occupied but not actually occupied during part of the year
- (b) Annual rent is more than expected rent with or without vacancy
- (c) Annual rent is more than expected rent without vacancy and less than expected rent due to vacancy
- (d) All the above
- M15.** Vacancy allowance is deducted from Expected Rent to arrive at GAV.
- (a) True
- (b) False
- M16.** Gauri let out a shop for 10,000 p.m. whose fair rent was Rs. 1,00,000 p.a. and municipal value was Rs. 90,000 p.a. The tenant vacated the shop on 1.1.2023 and subsequent tenant occupied the shop on 1.5.2023. Annual value of the shop for AY 2023-24 is:
- (a) 1,00,000
- (b) 1,20,000
- (c) 70,000
- (d) 90,000
- M17.** Municipal taxes to be deducted from GAV should be:
- (a) Paid by tenant during the PY
- (b) Paid by owner during the PY
- (c) Due during the PY, whether paid or not
- (d) Paid during the PY either by tenant or owner

**M18.** Jay owns a building whose municipal value is Rs. 3,00,000 p.a. and gross annual value is Rs. 4,00,000. Out of the municipal taxes levied @ 5%, Jay paid Rs. 5,000, his tenant paid Rs. 5,000 and the rest remained unpaid during the year. Net annual value of the building is:

- (a) 2,95,000 (b) 3,90,000  
(c) 3,95,000 (d) 3,85,000

**M19.** Mr. Hero owns a house whose gross annual value is Rs. 25,000 and municipal value is Rs. 3,00,000 p.a. Municipal taxes @ 10% were paid by him during the year. Expenses on account of repair, maintenance and insurance amounted to Rs. 6,000. Income from house property will be:

- (a) Nil (b) Loss of 5,000  
(c) 17,500 (d) Loss of 6,500

**M20.** Standard deduction is allowed in which of the following cases:

- (a) Property is self-occupied (b) NAV is negative  
(c) NAV is nil (d) NAV is positive

**M21.** Maximum deduction of interest payable on loan taken to repay the original loan taken for construction of self-occupied property can be:

- (a) 2,00,000 (b) Nil  
(c) 30,000 (d) No limit

**M22.** Maximum deduction of interest payable on loans taken for acquisition of two self-occupied properties can be:

- (a) 2,00,000 per property (b) 2,30,000  
(c) 2,00,000 in all for both properties (d) 30,000 per property

**M23.** To what extent is interest deductible in case of loan taken for repair of a let out property?

- (a) Current year and prior period interest without limit (b) Current year interest without limit  
(c) Current year and prior period interest up to 2 lakh (d) Current year and prior period interest up to 30,000

**M24.** Mr. Zero took a loan of Rs. 20 lakh from HDFC Bank on 1.6.2012 for constructing a house in which he resides. The construction was completed on 1.6.2020 and the loan was fully repaid in the year 2021. Total interest from 1.6.2012 to 1.6.2020 amounted to Rs. 5,20,000 and from 1.6.2012 to 31.3.2020 it was Rs. 5,00,000. Interest deductible for PY 2022-23 is:

- (a) 1,00,000 (b) 2,00,000  
(c) 30,000 (d) Nil

**M25.** Which of the following dates is not relevant in determining the limit of deduction of interest u/s 24(b) for construction of self-occupied house?

- (a) Date when loan is taken (b) Date when loan is repaid  
(c) Date when construction is completed (d) All the above

**M26.** Mr. Buddu has taken loans @ 10% p.a. on 1.4.2022 of Rs. 5 lakh for repair of House I which is self occupied, Rs. 10 lakh for construction of House II which is let out and Rs. 30 lakh for acquisition of House III which is also self occupied. Repair and acquisition of House I and III are completed on 1.10.2022. Construction of House II is completed on 1.10.2023. All loans are fully outstanding as on 31.3.2023. Interest deductible u/s 24(b) for PY 2022-23 is:

- (a) 3,50,000 (b) 2,00,000  
(c) 2,50,000 (d) 3,00,000

**M27.** Jyoti purchased a house property costing Rs. 49 lakh on 1 May 2022. Property is used exclusively for her residence. For this purpose, she obtained a loan from DHFL of Rs. 35 lakh bearing interest @ 14% p.a. on 1 April 2022. She does not own any other house. What is the amount of interest deduction she can claim for AY 2023-24?

- (a) 4,90,000 (b) 30,000  
(c) 2,00,000 (d) Nil

**M28.** Ragini paid interest of Rs. 1,00,000 (includes pre-acquisition interest of Rs. 20,000) for a house used as her residence, Rs. 40,000 (includes pre-construction interest of Rs. 20,000) for a house self occupied for 3 months and let out for 9 months and Rs. 35,000 (includes prior period interest of Rs. 10,000) for repairs of another flat self occupied during the year. All conditions for claim of enhanced limit of deduction of Rs. 2,00,000, where applicable, are satisfied. Interest deductible u/s 24(b) for the year is:

- (a) 1,75,000 (b) 1,65,000  
(c) 1,55,000 (d) 1,25,000

**M29.** Heera started construction of a house on 1.4.2017 which got completed on 1.3.2021. For this purpose, he took a loan from bank on 1.9.2018 which was fully repaid on 1.6.2022. The prior-period interest will be deductible as under:

- (a) Interest from 1.9.2018 to 31.3.2020 deductible in 5 equal installments from PY 2020-21 onward (b) Interest from 1.4.2017 to 1.6.2022 deductible in 5 equal installments from PY 2022-23 onward

- (c) Interest from 1.9.2018 to 31.3.2022 deductible in 5 equal installments from PY 2022-23 onward
- (d) Interest from 1.9.2018 to 31.3.2020 deductible in 5 equal installments from PY 2021-22 onward

**M30.** Meera paid interest of Rs. 60,000 along with penal interest of Rs. 1,000 against interest liability of Rs. 90,000 accruing during the PY 2022-23 in respect of loan taken from a housing finance company for reconstruction of a house self occupied by her. She also incurred brokerage and commission charges of Rs. 5,000 towards arranging the loan. Total interest deductible u/s 24(b) for PY 2022-23 will be:

- (a) 66,000 (b) 31,000  
(c) 96,000 (d) 30,000

### SPECIAL SITUATIONS

**M31.** Raju owns a residential house, let out on a monthly rent of Rs. 15,000. Fair rental value for the let out period is Rs. 1,50,000. House was self occupied from 1.1.2023 to 31.3.2023. He has taken loan from bank of Rs. 20 lakh for construction of property and has repaid Rs. 1,05,000 (including interest of Rs. 40,000) during the PY 2022-23. Compute IHP for AY 2023-24.

- (a) 50,000 (b) 75,000  
(c) 1,00,000 (d) 1,50,000

**M32.** Raju has three houses under self-occupation. What will be the tax treatment in respect of income from house property?

- (a) One house at his option will be treated as SOP. Other two houses will be treated as DLOP. (b) Two houses at his option will be treated as SOP. The other house will be treated as DLOP.  
(c) One house at the option of AO will be treated as SOP. Other two houses will be treated as DLOP. (d) Two houses at the option of AO will be treated as SOP. The other house will be treated as DLOP.

**M33.** Sridevi owns three houses used for self occupation. For each house, expected rent is Rs. 1,00,000 p.a. and municipal taxes paid during the year is Rs. 5,000. Interest on loan for Houses 1, 2 and 3 is Rs. 10,000, 20,000 and 30,000, respectively. What can be the minimum possible income from house property.

- (a) (-) 6,500 (b) Nil  
(c) 6,500 (d) 73,000

**M34.** Shiva resided in his house till 31 December 2021 when it was let out at Rs. 20,000 p.m. owing to he being required to leave for Mumbai for employment. IHP will be computed as if the house is:

- (a) Self occupied (b) Let out  
(c) Deemed to be let out (d) Vacant

**M35.** In case a property is self occupied for a part of year and let out for remaining part:

- (a) Municipal tax is taken for the let out period (b) Fair rent is taken for the let out period  
(c) Actual rent is taken for the whole year (d) Actual rent is taken for the let out period

**M36.** Mr. Z owns a house property in Delhi whose municipal value is Rs. 1,00,000 and fair rental value is Rs. 1,20,000. Standard rent is fixed at Rs. 1,08,000. It was self occupied by him from 1.4.2022 to 31.7.2022. W.e.f. 1.8.2022 it was let out at Rs. 10,000 p.m. Compute NAV of house property for AY 2023-24 if municipal taxes paid by him during the year were Rs. 20,000.

- (a) 1,00,000 (b) 88,000  
(c) 60,000 (d) 1,08,000

**M37.** Where a portion of house is self occupied while another portion is let out:

- (a) Expected rent is taken for the entire house (b) Actual rent is taken for the let out portion  
(c) Interest on loan is allowed for entire house without any limit (d) Municipal tax is to be deducted for the entire house

**M38.** Rishabh owns a house which has ground + 2 floors. The ground floor is let out for commercial purposes, first floor is let out for 9 months and used by his parents as residence for the rest of the year and the second floor is used by him for his residence. How will the IHP be computed for AY 2023-24?

- (a) Ground LOP, 1<sup>st</sup> floor SOP, 2<sup>nd</sup> floor SOP (b) All floors LOP  
(c) Ground LOP, 1<sup>st</sup> floor LOP, 2<sup>nd</sup> floor SOP (d) All floors SOP

**M39.** Govind owns a residential house in Delhi. House is having two identical units. First unit is self occupied and another unit is rented for Rs. 12,000 p.m. Rented unit was vacant for three months during the year. Compute IHP for AY 2023-24 from the following particulars:

Standard rent	2,20,000 p.a.	Light and water charges	800 p.m.
Municipal valuation	2,44,000 p.a.	Interest on borrowed capital	2,000 p.m.
Fair rent	2,35,000 p.a.	Insurance charges	3,500 p.a.
Municipal tax paid by Govind	12% of MV	Painting expenses	16,000 p.a.

- (a) 41,352 (b) 53,352  
(c) 12,000 (d) 65,432

**M40.** In case Ram and Shyam co-own a self-occupied property and Ram owns another self-occupied property, interest on loan taken for acquisition of these properties can be deducted in the hands of Ram to the maximum extent of:

- (a) Actual interest payable (b) Rs. 2 lakh in the aggregate  
(c) Rs. 2 lakh for each property (d) Rs. 4 lakh in the aggregate

**M41.** Gyan and Ryan are co-owners of a self occupied property. They own 50% share each. Interest payable by each co-owner during PY 2022-23 on loan taken for acquisition of property during the year 2007 is Rs. 2,05,000. Amount of allowable deduction to each co-owner is:

- (a) 2,05,000 (b) 1,02,500  
(c) 2,00,000 (d) 1,00,000

**M42.** Sujal and his brother jointly own a bungalow having equal share. They had taken a housing loan to purchase the bungalow. Loan was sanctioned in the name of Sujal and his brother in the year 2018 and they purchased the bungalow in the year 2019. Interest on housing loan for PY 2022-23 amounted to Rs. 5 lakh which was payable equally by Sujal and his brother. Bungalow is used by them for their residence. They don't own any other house. What will be the income from house property taxable in the hands of Sujal for AY 2023-24?

- (a) Loss of 30,000 (b) Loss of 2,00,000  
(c) Loss of 1,00,000 (d) Loss of 2,50,000

**M43.** Jay and Viru are friends who co-own a shop having share in the income 60:40. The shop is let out on monthly rent of Rs. 10,000 p.m. Fair rent of the shop is Rs. 1,50,000 p.a. which is more than the municipal valuation but less than the standard rent. Municipal taxes of Rs. 10,000 were paid on 31 March 2023. Interest on loan taken to renew the shop is Rs. 40,000. IHP taxable in the hands of Jay for AY 2023-24 is:

- (a) 18,800 (b) 29,000  
(c) 28,800 (d) 34,800

**M44.** If unrealized rent of Rs. 20,000 pertaining to PY 2020-21 could not be deducted in computing the annual value of property for that PY, it will not be taxed upon recovery during PY 2022-23.

- (a) True (b) False

**M45.** Reena received Rs. 30,000 as arrears of rent pertaining to PY 2021-22 during the PY 2022-23. Arrears arose on account of retrospective increase in rent from the PY 2021-22. Amount taxable u/s 25A would be:

- (a) 30,000 (b) 21,000  
(c) 20,000 (d) 15,000

**M46.** Vijaya received Rs. 90,000 in May 2022 towards recovery of unrealized rent, which was deducted from actual rent during PY 2020-21 for determining the annual value. Legal expenses incurred in relation to unrealized rent were Rs. 20,000. Amount taxable u/s 25A during PY 2022-23 would be:

- (a) 70,000 (b) 63,000  
(c) 60,000 (d) 49,000

**M47.** Vijay sold his house on 1 March 2022 which was let out earlier to Jay who did not pay Rs. 50,000 of rent owing to a dispute being litigated in court of law. Such rent was not taxed earlier. Vijay incurred legal expenses of Rs. 30,000 in recovering the arrears of rent which he finally received on 1 October 2022. He claims that Rs. 20,000 (recovery net of expenses) should be taxed under the head IFOS. How will this amount be taxed for AY 2023-24?

- (a) 20,000 as IFOS (b) 20,000 as IHP  
(c) 35,000 as IHP (d) 50,000 as IFOS

**M48.** Where a building is let out along with plant, machinery and furniture as an integrated offering which cannot be separated:

- (a) Entire income is taxable as IHP (b) Income is split between IHP and PGBP/IFOS  
(c) Entire income is taxable as PGBP or IFOS, as the case may be (d) Entire income is taxable as PGBP or IFOS only if a composite rent has been fixed

**M49.** Prem has rented his office space on Rs. 25,000 p.m. which includes Rs. 5,000 towards services of security, gardener and maintenance. Fair rent of property alone is Rs. 2,00,000 p.a. The tenant is liable to pay municipal taxes. IHP for AY 2023-24 will be:

- (a) 2,10,000 (b) 1,68,000  
(c) 1,40,000 (d) Nil (taxable as IFOS)

**M50.** Annual value of property held as stock-in-trade is taken as nil for a period of 2 years immediately succeeding the year in which certificate of completion of construction is obtained from the competent authority.

- (a) True (b) False

**M51.** Jagdamba Builders Ltd. has unsold stock of 10 flats lying vacant during the whole of PY 2022-23. Fair rent for each flat is Rs. 5,00,000 p.a. While certificate of completion of construction was obtained for 4 flats on 1 May 2020, certificate for remaining flats was obtained on 1 May 2022. Total interest on loan taken for constructing these flats payable during the PY 2022-23 is Rs. 5,00,000. IHP for AY 2023-24 will be:

- (a) Nil (b) (5,00,000)  
(c) (2,00,000) (d) 30,00,000

**M52.** In which of the following cases will income from house property be taxed in the hands of Raj?

- (a) He sells his house to his wife for Rs. 15 lakh (market value is Rs. 15 lakh) (b) He gifts his flat to his daughter, 16 years, who is married  
(c) He acquires a building on lease of 10 years (d) He is allotted a flat in a group housing society of which he is a member

**M53.** Heera entered into an agreement in writing to buy a building from Beera on 1 March 2023. He paid sales consideration on 10 March 2023 and took possession of the property on 15 March 2023. Sale deed was executed and property registered in his name on 1 May 2023. Income from house property will be taxable in his hands for the PY 2022-23.

- (a) True (b) False

## Answer Key

M1 C; M2 A; M3 B; M4 B; M5 C; M6 C; M7 C; M8 A; M9 C; M10 B; M11 B; M12 B; M13 B; M14 C; M15 B; M16 D; M17 B; M18 C; M19 B; M20 D; M21 A; M22 C; M23 B; M24 C; M25 B; M26 B; M27 C; M28 B; M29 A; M30 D; M31 C; M32 B; M33 C; M34 B; M35 D; M36 B; M37 B; M38 C; M39 A; M40 B; M41 C; M42 B; M43 D; M44 A; M45 B; M46 B; M47 C; M48 C; M49 B; M50 B; M51 B; M52 D; M53 A

## Hints to MCQ answers

**M4.** Property is in India. Income is deemed to accrue/arise in India and is taxable in India in case of NR. In Options A and C, income accrues/arises and is received outside India. In Option D, it is own flat used in business and, thus, not taxable as IHP.

**M5.** Taxable as IFOS. Not taxable as PGBP since subletting is not the business of Mr. Jain.

**M8.** Jodhpur flat is SOP and Delhi flat is UOP. Annual value for up to 2 SOP/UOP is Nil

**M9.** House let out for part of year is treated as LOP. Up to 2 SOP/UOP treated as SOP/UOP. 3<sup>rd</sup> treated as DLOP.

**M10.** Higher of FR or MV but not exceeding SR.

**M12.** GAV is higher of ER 2,00,000 (higher of FR or MV) or AR 1,80,000 (2,40,000 – 60,000). Unrealized rent is deducted as Rule 4 conditions are satisfied.

**M13.** Conditions of Rule 4 are not satisfied as defaulting tenant is in occupation of another property of assessee.

**M16.** AR of 90,000 is < ER of 1,00,000 (higher of FR or MV) due to vacancy. Otherwise, AR of 1,20,000 was ≥ ER of 1,00,000. GAV = AR.

**M18.** NAV = 4,00,000 – 5,000 (municipal taxes paid by Jay during the PY) = 3,95,000.

**M19.** IHP = GAV 25,000 – 30,000 municipal tax = (5,000). Standard deduction not allowable as NAV is negative.

**M23.** Current year interest is allowed without limit. Prior period interest is allowed only in case of acquisition or construction.

**M24.** Current year interest is Nil. Prior period instalment = 1,00,000 (5,00,000/5). Construction is completed after the 5-year timeline. Thus, deduction limit is 30,000.

**M26.** H1 is deductible up to 30,000 as it is for repair + H3 is deductible up to 2,00,000 as it is for construction = 2,30,000. But overall limit is 2,00,000. H2 interest is not deducted since house itself does not exist in PY 2022-23.

**M27.** 4.9 lakh (14% of 35 lakh) but up to the limit of 2 lakh.

**M28.** For SOP 1,00,000 (limit is 2 lakh) + For SOP let out for part of year 40,000 (no limit as it is treated as LOP) + For repair of SOP 25,000 (limit is 30,000; prior period interest is not allowed in case of repair) = 1,65,000

**M29.** From the date of borrowing (1.9.2018) to 31 March immediately preceding the date of completion of acquisition or construction (31.3.2020) deductible from PY 2020-21 to 2024-25.

**M30.** 30,000 is the limit of deduction in case of reconstruction of SOP. Penal interest, brokerage, etc. are not deductible.

**M31.** Property is SOP and LOP for part of year; treated as LOP. ER for the whole year = 2,00,000 (1,50,000 × 12/9). AR = 1,35,000 (15,000 for 9 months). GAV/NAV = 2,00,000. IHP = NAV 2,00,000 - SD 60,000 (@30%) - Interest 40,000 (fully deductible for LOP) = 1,00,000.

- M33.** Houses 1 and 2 treated as SOP: IHP = Nil NAV - 30,000 interest = 30,000 loss. // House 3 treated as DLOP: GAV 1,00,000 – 5,000 municipal tax = NAV 95,000. IHP = NAV 95,000 – SD 28,500 (@30%) – Interest 30,000 = 36,500. // Total IHP = 36,500 – 30,000 = 6,500.
- M36.** SOP let out for part of year is treated as LOP. GAV = Higher of ER 1,08,000 (higher of FR or MV but restricted to SR) or AR 80,000 (for 8 months) = 1,08,000. NAV = 1,08,000 GAV – 20,000 municipal tax = 88,000.
- M38.** 1<sup>st</sup> floor which is SOP and LOP for part of year will be treated as LOP. GF is LOP and 2<sup>nd</sup> floor is SOP.
- M39.** IHP of LOP unit = ER = 1,10,000 (50% of higher of FR or MV, but restricted to SR). AR = 1,44,000 – 36,000 = 1,08,000 for 9 months. Vacancy allowance is available as AR is < ER owing to vacancy. GAV = 1,08,000. NAV = 1,08,000 GAV – 14,640 municipal tax (50% of 12% of MV) = 93,360. IHP = GAV 93,360 - SD 28,008 (@30%) - Interest 12,000 (50% of 24,000) = 53,352. /// IHP of SOP unit = Loss being interest of 12,000. /// Total IHP = 53,352 – 12,000 = 41,352.
- M42.** IHP = Nil NAV – 2 lakh interest = Loss of 2 lakh. Each co-owner is individually entitled to the benefit of Nil NAV and deduction of interest up to the 2 lakh limit (loan is taken for acquisition of SOP, loan is taken on or after 1.4.1999, acquisition is completed within 5 years from the end of FY in which loan taken and assuming assessee furnishes the requisite certificate from the lender).
- M43.** GAV = Higher of 1,50,000 ER or 1,20,000 AR = 1,50,000. NAV = 1,50,000 – 10,000 municipal tax = 1,40,000. IHP = 1,40,000 NAV – 42,000 SD (@30%) – 40,000 interest (fully deductible for LOP) = 58,000. IHP of Jay = 60%, i.e., 34,800
- M45.** 30,000 - 30% deduction = 21,000
- M46.** 90,000 less 30% = 63,000
- M47.** 50,000 less 30% taxable under the head IHP
- M49.** Rent for building is taxable under IHP. Service charges are taxable under PGBP/IFOS. GAV = Higher of FR of 2,00,000 or AR of 2,40,000 (@ 20,000 p.m.) = 2,40,000. Taxes are not deductible as not paid by Prem. IHP = 2,40,000 GAV - 30% SD = 1,68,000.
- M50.** Benefit is available for the period up to 2 years from the end of the FY in which certificate of completion (COC) is obtained. Thus, benefit is also available for the year of obtaining COC.
- M51.** Benefit of nil annual value for 4 flats is available till PY 2022-23 (up to 2 years from end of PY 2020-21) and for 6 flats till PY 2023-24 (up to 2 years from end of PY 2022-23). AV for all flats for PY 2022-23 is nil; no limit on deduction of interest.
- M52.** A: Sold for adequate consideration. B: Daughter is minor but married. C: Lease is not for  $\geq$  12 years. D: Deemed owner u/s 27 as Raj is a member of a co-operative society to whom a building (or part thereof) is allotted or leased under a house building scheme of the society.
- M53.** Deemed owner u/s 27A as Heera is allowed to take or retain possession of any building (or part thereof) in part performance of a contract of the nature referred u/s 53A of the Transfer of Property Act, 1882.



## 7

# Profits and Gains of Business or Profession

## Build Your Confidence (BYC)

### BASIC CONCEPTS

**B1-15. BASIC CONCEPTS** – Examine whether the following would be taxable in the hands of Ravi under the head PGBP for the current PY in India.

#	Situation
1	Rent from a house situated in Delhi and owned by Ravi
2	Income from share trading
3	Income of a practicing Chartered Accountant
4	Income from business owned by Ravi but fully managed by his senior most employee
5	Income from business carried on for only 1 month during the PY
6	Income from business carried on during the preceding PY
7	Income from business carried on in USA and profits received in USA (Ravi is a ROR in India)
8	Income from business carried on in UK and profits received in UK (Ravi is a NR in India)
9	Profits from sale of machinery used to manufacture products to be sold in the market
10	Gross turnover of Rs. 10 lakh during the PY
11	Income which will arise if an ongoing legal dispute with a customer is settled
12	Notional income on account of rise in market value of stock-in-trade
13	Royalty income received from the profession of authoring books
14	Interest on amount deposited in saving bank account
15	Profit on sale of shares held as investment

■ Answer: 1. No - Taxable under the head IHP; 2. Yes - Profits and gains from business; 3. Yes - Profits and gains from profession; 4. Yes - Profits and gains from business; 5. Yes - Duration is not relevant; 6. No - Taxable for the preceding PY; 7. Yes - Global income is taxable for ROR; 8. No - Income accrues and is received outside India; 9. No - Sale of capital asset is taxable under the head Capital Gains; 10. No - Profits are taxable, not turnover; 11. No - Contingent income is not taxable; 12. No - Real income is taxable; not notional; 13. Yes - Profits and gains from profession; 14. No - Not business; income taxable under the head IFOS; 15. No - Not business; income taxable under the head Capital Gains

### INCOMES CHARGEABLE AS PGBP

**B16-22. INCOMES CHARGEABLE AS PGBP** – Examine whether the following incomes would be taxable under the head PGBP.

3	Situation
1	Due to a dispute between the directors of Fight Ltd., Mr. Fighter's position of Managing Director was prematurely terminated, for which he received a compensation of Rs. 1 crore.

2	James Bond was appointed as the sole agent in India of Guns Ltd., a foreign company. Subsequently, the company terminated the agency agreement and the company paid him a compensation of Rs. 50 lakh.
3	The Federation of Hotel Association of India received advertisement charges from its members for publication of their advertisements in its monthly journal.
4	Disputes Ltd. provided a rent free residential accommodation to Mr. Advocate, a lawyer, in view of excellent legal services rendered by him to the company.
5	Software Ltd. received Rs. 10 crore from Computer Ltd. for agreeing not to carry on software development business for the next 5 years in India.
6	Cold Drink Ltd. uses a patented formula developed by Fluid Ltd. to manufacture cold drinks. On termination of their agreement, Cold Drink Ltd. paid Rs. 1 crore to Fluid Ltd. not to share the formula with any other person for the next 3 years.
7	Risk-free Ltd. took a Keyman insurance policy on life of its managing director. Upon his death, the company received Rs. 1 crore.

■ Answer: 1. Yes, u/s 28(ii); 2. Yes, u/s 28(ii); 3. Yes, u/s 28(iii); 4. Yes, u/s 28(iv); 5. Yes, u/s 28(va); 6. Yes, u/s 28(va); 7. Yes, u/s 28(vi)

#### DEDUCTIONS FOR ASSETS

**B23-28. S. 30, 31** – Ascertain whether the following expenditure incurred by Raghav, engaged in a manufacturing business, would be allowable in computing business income for the PY 2022-23?

#	Situation
1	Rs. 50,000 p.m. paid by Raghav for factory premises taken on rent
2	Premium of Rs. 10,000 paid for insuring machines purchased by him
3	Premium of Rs. 5,000 for insuring office premises taken on rent. Premium is paid by the owner.
4	Rs. 10 lakh spent by Raghav on reconstruction of an office building that he owns.
5	Rs. 5,000 spent on routine repairs to the office building which he has taken on rent
6	Rs. 2,000 spent on repairs of furniture installed at his residence

■ Answer: 1. Yes, u/s 30; 2. Yes, u/s 31; 3. No, as not paid by Raghav; 4. Not u/s 30 as it is capital expenditure. Depreciation can be claimed u/s 32; 5. Yes, u/s 30; 6. No, as furniture not used for business

**B29-39. S. 32 - CONDITIONS** – Determine whether depreciation will be allowed in the following cases for the PY 2022-23?

#	Situation
1	Plot of land is leased by Mr. Swiggy on which building is constructed at a cost of Rs. 1 crore.
2	Two Chartered Accountants purchase law books for use in their profession by contributing equal amount of money.
3	Reliable Ltd. pays Rs. 20 lakh to acquire a patent right for use in its manufacturing process.
4	Mr. Smart spends Rs. 5 lakh to construct an additional room in the office premises that he has taken on lease for his business.
5	JK Ltd. acquired a genset for Rs. 10 lakh on 1 April 2022 which is kept ready for use in case of power failure. There was no power failure during PY 2022-23.
6	PQR Ltd. has purchased machinery on 1 January 2023 which can only be used once installed. Installation takes place on 1 April 2023.
7	Saurabh purchases a sofa set for Rs. 50,000 for use at his residence.
8	Suman purchases a building for Rs. 50 lakh and uses half of the building for his business.
9	Mr. Jain takes possession of a building u/s 53A of the Transfer of Property Act which he has agreed to purchase, though it is not yet registered in his name.
10	Lease Man Ltd. purchases 10 vehicles for its leasing business. 7 vehicles are leased to different parties during the PY.
11	Very Smart Ltd. claims depreciation on stock-in-trade of computers worth Rs. 5 crore.

■ Answer: 1. Yes on building, even if land is not owned; 2. Yes @ 50% each; 3. Yes as patent is a specified intangible asset; 4. Yes on room as it is capital expenditure deemed to be a building owned by Mr. Smart; 5. Yes as use includes ready for use; 6. No as not used or ready for use; 7. No as not used for business; 8. Yes @ 50% (extent used for business); 9. Yes as Mr. Jain is treated as owner (registered ownership not necessary); 10. Yes as lessor is entitled to depreciation; 11. No as depreciation is not allowed on stock-in-trade

**B40. S. 32 – BLOCK** – Determine the block of assets in respect of which Mr. Joseph, carrying on manufacturing business, is entitled to depreciation for the following assets owned by him.

- Residential quarters for employees within factory premises
- Factory building, furniture
- Mobile phones



- Know-how, patents and trademarks
- Temporary wooden sheds, pollution control equipment, computers, laptops, printers, books

Block	Rate	Class	Assets
1	5%	Building	Residential quarters
2	10%	Building	Factory building
3	10%	Furniture & fitting	Furniture
4	15%	Plant & machinery	Mobile phones
5	25%	Intangible assets	Know-how, patents and trademarks
6	40%	Building	Temporary wooden sheds
7	40%	Plant & machinery	Pollution control equipment, computers, laptops, printers, books

**B41-44. S. 32 – NORMAL DEP** – Compute the amount of depreciation allowable to Shri Ltd. for the AY 2023-24 in the following situations concerning plant and machinery block eligible for depreciation @ 40%. Ignore provisions of additional depreciation.

Particulars	I	II	III	IV
WDV of Block as on 31 March 2022	1,20,000	1,20,000	1,20,000	1,20,000
Depreciation for PY 2021-22	20,000	20,000	20,000	20,000
Actual cost of Asset 1 purchased on 1 June 2022	30,000	-	30,000	30,000
Asset 2 (purchased last year) sold on 1 March 2023	-	20,000	20,000	1,50,000

*Computation of depreciation*

Computation	I	II	III	IV
WDV of Block as on 31 March 2022	1,20,000	1,20,000	1,20,000	1,20,000
Less: Depreciation for PY 2021-22	(20,000)	(20,000)	(20,000)	(20,000)
WDV of Block as on 1 April 2022	1,00,000	1,00,000	1,00,000	1,00,000
Add: Actual cost of Asset 1 purchased on 1 June 2022	30,000	-	30,000	30,000
Less: Moneys payable for Asset 2 sold on 1 March 2023	-	(20,000)	(20,000)	(1,50,000)
WDV of Block for depreciation	1,30,000	80,000	1,10,000	Nil
Less: Depreciation @ 40%	(52,000)	(32,000)	(44,000)	Nil
<b>Closing WDV</b>	<b>78,000</b>	<b>48,000</b>	<b>66,000</b>	<b>Nil</b>

**B45-49. S. 32 – NORMAL DEP** – Determine the quantum of depreciation allowable to Zigzag Ltd. for the AY 2023-24 and AY 2024-25 for the following plant and machinery:

#	Asset
1	Acquired on 1 May 2022 and put to use on 15 September 2022
2	Acquired on 1 May 2022 and put to use on 31 March 2023
3	Acquired on 1 May 2022 and put to use on 1 April 2023
4	Acquired on 1 May 2022 and put to use on 31 March 2024
5	Acquired on 1 May 2022 and made ready for use on 31 March 2023

#	AY 2023-24	AY 2024-25	Remarks
1	Full	Full	Asset acquired during PY 2022-23 and put to use during that PY for $\geq$ 180 days.
2	50%	Full	Asset acquired during PY 2022-23 and put to use during that PY for $<$ 180 days.
3	No	Full	Asset acquired during PY 2022-23 and not put to use during that PY.
4	No	Full	Asset acquired during PY 2022-23 and not put to use during that PY. 50% restriction does not apply to subsequent PY.
5	50%	Full	Asset acquired during PY 2022-23 and put to use (ready for use) during that PY for $<$ 180 days.

**B50-53. S. 32 – NORMAL DEP** – Compute the amount of depreciation allowable to Shri Ltd. for the AY 2023-24 in the following cases (ignore provisions of additional depreciation):

Particulars	I: Building (10%)	II: P&M (30%)	III: Intangible (25%)	IV: Furniture (10%)
WDV of Block as on 1 April 2022	90,00,000	10,00,000	5,00,000	10,000
Asset 1 acquired on 1 June 2022 and put to use on 15 June 2022	30,00,000	5,00,000	1,00,000	70,000

Asset 2 acquired on 1 June 2022 and put to use on 15 March 2023	20,00,000	4,00,000	3,00,000	-
Asset 3 acquired on 1 June 2022 and put to use on 15 April 2023	-	-	2,00,000	
Asset 4 (acquired last year) and sold on 31 May 2022	40,00,000	15,00,000	5,00,000	60,000

Computation	I: Building (10%)	II: P&M (30%)	III: Intangible (25%)	IV: Furniture (10%)
WDV of Block as on 1 April 2022	90,00,000	10,00,000	5,00,000	10,000
Add: Actual cost of assets acquired during the PY				
• Asset 1 (put to use for ≥ 180 days)	30,00,000	5,00,000	1,00,000	70,000
• Asset 2 (put to use for < 180 days)	20,00,000	4,00,000	3,00,000	-
• Asset 3 (not put to use)	-	-	2,00,000	-
Less: Moneys payable for Asset 4 sold during the PY	(40,00,000)	(15,00,000)	(5,00,000)	(60,000)
WDV of Block (as on 31.3.2023) for depreciation	1,00,00,000	4,00,000	6,00,000	20,000
Less: Depreciation allowed:				
I: 50% of 10% of 20 lakh for Asset 2 + 10% of remaining 80 lakh	(9,00,000)			
II: 50% of 30% of 4 lakh for Asset 2. Balance exhausted.		(60,000)		
III: Nil on 2 lakh for Asset 3 as not put to use + 50% of 25% of 3 lakh for Asset 2 + 25% of remaining 1 lakh			(62,500)	
IV: 10% of 20,000				(2,000)
<b>Closing WDV of Block</b>	<b>91,00,000</b>	<b>3,40,000</b>	<b>5,37,500</b>	<b>18,000</b>

**B54. S. 32 – NORMAL DEP** – Sheena started her practice as a lawyer on 1.4.2022. Compute the amount of depreciation that she can claim for AY 2023-24 from the following particulars of assets that she acquired.

Description	Date of acquisition	Date when put to use	Actual cost
Computer (along with computer software)	15.9.2022	2.10.2022	50,000
Computer printer, UPS and router	25.9.2022	10.11.2022	10,000
Law books	15.5.2022	15.5.2022	25,000
Office furniture	10.4.2022	10.4.2022	1,50,000
Electrical and other fittings	15.7.2022	20.7.2022	40,000
Car (60% used for office work)	26.3.2023	31.3.2023	4,00,000

Computation of depreciation

Particulars	Block 1 – Furniture (10%)	Block 2 – P&M (40%)	Block 2 – P&M (15%)
Actual cost of assets acquired during the PY			
Put to use for ≥ 180 days			
• Computer (along with computer software)		50,000	
• Law books		25,000	
• Office furniture	1,50,000		
• Electrical and other fittings	40,000		
Put to use for < 180 days			
• Computer printer, UPS and router		10,000	
• Car			4,00,000
	1,90,000	85,000	4,00,000
Less: Depreciation:			
Furniture = 10% of 1,90,000	(19,000)		
P&M put to use for < 180 days = 50% of 40% of 10,000 // 60% (official use) of 50% of 15% of 4,00,000		(2,000)	(18,000)
P&M put to use for ≥ 180 days = 40% of 75,000		(30,000)	
	19,000	32,000	18,000
<b>Total depreciation</b>		<b>69,000</b>	

**B55. S. 32 – ACTUAL COST – Zap Ltd.** purchased a machine on 1.7.2022 which was first put to use on 30.9.2022. It took a loan of Rs. 1,00,000 from JK bank for this purpose on 1.4.2021 @ 10% p.a. for which it paid interest through bank ECS facility. The loan was fully outstanding as on 31.3.2023. It paid GST of Rs. 30,000 whole of which was allowed as ITC. Compute the actual cost of machine from the following particulars.

Expense	Rs.	Mode of payment
Purchase price paid on 1.7.2022	5,00,000	A/c payee cheque
Freight and insurance paid on 1.8.2022	10,000	IMPS
Transportation paid on 1.8.2022	15,000	Cash
Installation charges paid on 30.9.2022	5,000	Uncrossed cheque
Repair expenses paid on 1.3.2023	20,000	Credit card

■  
Computation of actual cost of machine

Particulars	Rs.
Purchase price	5,00,000
GST (ITC availed): Not part of actual cost	-
Interest on loan till date asset is first put to use (1.4.2021 to 30.9.2022) = 10% p.a. of 1 lakh for 18 months	15,000
Freight and insurance	10,000
Transportation: Not part of actual cost as cash payment is > 10,000	-
Installation charges: Not disallowed as payment by uncrossed cheque is not > 10,000	5,000
Repair expenses paid on 1.3.2023 (not part of actual cost as incurred after asset is put to use)	-
<b>Actual cost</b>	<b>5,30,000</b>

**B56. S. 32 – ACTUAL COST – CA2018(NOV) - Mr. Rangamannar** resides in Delhi. As per the new rule in the city, private cars can be plied in the city only on alternate days. He has purchased a car on 21.9.2022 for the purpose of his business, as per following details:

Cost of car (excluding GST)	12,00,000
Add: Delhi GST at 14%	1,68,000
Add: CGST at 14%	1,68,000
<b>Total price of car</b>	<b>15,36,000</b>

He estimates the usage of car for personal purposes will be 25%. He is advised that since the car has run only on alternate days, half the depreciation, which is otherwise allowable, will be actually allowed. He has started using the car immediately after purchase. Determine depreciation allowable on car for AY 2023-24 if this is the only asset in block. Rate of depreciation may be taken at 15%.

If this car were to be used in the subsequent AY 2024-25 on the same terms and conditions above, what will be the depreciation allowable? Assume that there is no change in legal position under the Act.

■  
Computation of depreciation

Particulars	Rs.
Cost of car (excluding GST)	12,00,000
GST: ITC is blocked on car u/s 17(5) of CGST Act, 2017. Thus, GST will be included in actual cost.	3,36,000
Actual cost of car (used for $\geq$ 180 days): Use on alternate days does not make put to use for < 180 days	15,36,000
Less: Depreciation for AY 2023-24 = 75% of 15% of 15,36,000. 25% disallowed u/s 38 for personal use.	<b>1,72,800</b>
WDV as on 1.4.2023	13,63,200
Less: Depreciation for AY 2024-25 = 75% of 15% of 13,63,200. 25% disallowed u/s 38 for personal use	<b>1,53,360</b>

**B57. S. 32 – ADDITIONAL DEP – CA2021(JAN) (modified) - Compute the quantum of depreciation available u/s 32 in respect of the following items of plant and machinery purchased by Gupta Textile Ltd., which has set up a unit to manufacture textile fabrics during the year 2022-23. Also compute the WDV of the block of assets as at the year end.**

Particulars	Rs. Crore
New machinery installed on 1.5.2022	84
Items purchased after 30.11.2022:	
• Lorries for transporting goods to sales depots	3
• Fork-lift-trucks, used inside factory	4
• New imported machinery	12

The new imported machinery arrived at Chennai port on 30.3.2023 and was installed on 3.4.2023. All other items were installed and put to use during the year ended 31.3.2023.

■

*Computation of closing WDV for AY 2023-24*

Computation	Rs.
WDV of Block as on 1 April 2022	Nil
Add: Actual cost of assets acquired during the PY:	
Put to use for $\geq$ 180 days:	
• New machinery installed on 1.5.2022	84,00,00,000
Put to use for $<$ 180 days:	
• Lorries for transporting goods to sales depots	3,00,00,000
• Fork-lift-trucks, used inside factory	4,00,00,000
Not put to use:	
• New imported machinery	12,00,00,000
	103,00,00,000
Less: Assets sold during the year	-
WDV of Block (as on 31.3.2023) for depreciation	1,03,00,00,000
Less: Normal depreciation u/s 32(1)(ii) (Note)	(13,12,50,000)
Less: Additional depreciation u/s 32(1)(ia) (Note)	(17,20,00,000)
<b>Closing WDV</b>	<b>72,67,50,000</b>

*Computation of depreciation for AY 2023-24*

Computation	Normal Dep	Addl. Dep
New machinery installed on 1.5.2022 of 84 crore: Normal depreciation @ 15% and additional depreciation @ 20%	12,60,00,000	16,80,00,000
Lorries for transporting goods to sales depots of 3 crore: Normal depreciation @ 50% of 15%; no additional depreciation on road transport vehicle	22,50,000	-
Fork-lift-trucks, used inside factory of 4 crore: Normal depreciation @ 50% of 15% and additional depreciation @ 50% of 20%	30,00,000	40,00,000
New imported machinery: No normal or additional depreciation since not installed (put to use) during the year	-	-
	13,12,50,000	17,20,00,000

**B58. S. 32 – ADDITIONAL DEP – CA2013(NOV)** – *Abhimanyu is engaged in the business of generation and distribution of electric power. He always opts to claim depreciation on WDV for income tax purposes. From the following details, compute the depreciation allowable and the closing WDV for AY 2023-24. Assume that all the assets were purchased by way of account payee cheque.*

Opening WDV of Block 15% rate	42,00,000
New machinery purchased on 12.10.2022	10,00,000
Machinery imported from Colombo on 12.4.2022. This machine had been used only in Colombo earlier and the assessee is the first user in India.	9,00,000
New computer installed in generation wing of the unit on 15.7.2022	2,00,000

■

*Computation of depreciation for AY 2023-24*

Computation	P&M 15%	P&M 40%
WDV of Block as on 1 April 2022	42,00,000	-
Add: Actual cost of assets acquired during the PY:		
• New machinery purchased on 12.10.2022 (put to use for $<$ 180 days)	10,00,000	-
• Imported machinery (put to use for $\geq$ 180 days)	9,00,000	-
• New computer (put to use for $\geq$ 180 days)	-	2,00,000
WDV of Block (as on 31.3.2023) for depreciation	61,00,000	2,00,000
Less: Depreciation:		
Normal depreciation		
• 50% of 15% of 10 lakh on new machinery + 15% of remaining 51 lakh	(8,40,000)	
• 40% of 2 lakh on new computer		(80,000)

Additional depreciation:		
• 50% of 20% of 10 lakh (as put to use for < 180 days) on new machinery. Not allowed on second hand imported machinery.	(1,00,000)	
• 20% of 2 lakh. Allowed since computer is not installed in office.		(40,000)
<b>Closing WDV of Block</b>	<b>51,60,000</b>	<b>80,000</b>

**B59. S. 32 – ADDITIONAL DEP – CA2018(NOV)** - Mr. Sharad set up a manufacturing unit of detergent powder on 20.4.2022. He purchased the following machineries (falling under 15% block) during PY 2022-23.

Machine A, Machine B and Machine C from XYZ Ltd. on credit (installed on 20.6.2022)	45,00,000
Machine D from Suyog Ltd. (installed on 5.9.2022). Invoice was paid through a cash payment on the same day.	25,00,000
Machine E from Den Ltd. (a second-hand machine dealer) on 15.12.2022 (payment for purchase invoice was made through NEFT on 2.1.2023)	5,00,000

Compute the depreciation allowance u/s 32 for AY 2023-24.

■

Computation of depreciation allowance u/s 32 for AY 2023-24

Particulars	Rs.	Rs.
Actual cost of assets acquired during the PY:		
• Machines A, B, C (used for $\geq$ 180 days) (assuming payment is made by a specified mode)		45,00,000
• Machine D (not included in actual cost as payment in cash is > Rs. 10,000)		-
• Machine E (used for < 180 days)		5,00,000
Actual cost		50,00,000
Depreciation:		
<i>Normal depreciation:</i>		
• Machines A, B, C = 15% of 45 lakh	6,75,000	
• Machine E = 50% of 15% of 5 lakh	37,500	
		7,12,500
<i>Additional depreciation:</i>		
• Machines A, B, C = 20% of 45 lakh		9,00,000
• Machine E – Not allowed on second hand machinery		-
<b>Total depreciation</b>		<b>16,12,500</b>

*Mistake by students – Cash payment included in actual cost. Additional depreciation allowed on second hand machinery.*

**B60. S. 32 – ADDITIONAL DEP** - Jagat started his business of manufacturing rubber based products. After setting up the manufacturing unit by installing plant and machinery worth Rs. 50 lakh, he commenced manufacturing on 15.5.2022. Plant and machinery included a second-hand machine costing Rs. 10 lakh and a machine which had been acquired for Rs. 15 lakh for use in scientific research relating to the business of Jagat. Compute the amount of depreciation for AY 2023-24 assuming that all assets were purchased by account payee cheque and are entitled to 15% rate of depreciation.

■

Computation of depreciation for AY 2023-24

Computation	Rs.	Rs.
Total cost of plant and machinery	50,00,000	
Less: Used for scientific research [No depreciation on asset on which deduction is allowed u/s 35 (u/s 35(2)(iv) (see para 100 of Concepts Book)]	(15,00,000)	
	35,00,000	
Normal depreciation: 15% on Rs. 35 lakh		5,25,000
Additional depreciation:		
• Total cost of plant and machinery	50,00,000	
• Less: Second hand plant and machinery (not allowed on second hand P&M)	(10,00,000)	
• Less: Machinery for scientific research (not allowed on P&M whose 100% actual cost is allowed as deduction (u/s 35(1)(iv) in this case (see para 100 of Concepts Book))	(15,00,000)	
Cost of plant and machinery eligible for additional depreciation	25,00,000	
Additional depreciation = 20% of 25 lakh		5,00,000
<b>Depreciation allowable for AY 2023-24</b>		<b>10,25,000</b>

**B61. S. 32 – ADDITIONAL DEP – CA2016(MAY) – Venus Ltd., engaged in manufacture of pesticides, furnishes the following particulars relating to its manufacturing unit at Chennai for the year ending 31.3.2023.**

Opening WDV of plant and machinery	20 lakh
New machinery purchased on 1.9.2022	10 lakh
New car purchased on 1.12.2022	8 lakh
Computer purchased on 3.1.2023	4 lakh

- All assets were put to use immediately.
- Computer has been installed in the office.
- During the year ended 31.3.2022, a new machinery had been purchased on 31.10.2021 for Rs. 10 lakh. Additional depreciation, besides normal depreciation, had been claimed thereon.
- Depreciation rate for machinery may be taken as 15%.

Compute the depreciation available to the assessee and the WDV of different blocks of assets as on 31.3.2023. Assume that assets were purchased by way of account payee cheque.

■

*Computation of depreciation and WDV*

Computation	P&M 15%	P&M 40%
WDV of Block as on 1.4.2022	20,00,000	-
Add: Actual cost of assets acquired during the PY:		
• New machinery (put to use for $\geq$ 180 days)	10,00,000	-
• New car (assuming 15% rate of depreciation) (put to use for < 180 days)	8,00,000	-
• Computer (put to use for < 180 days)	-	4,00,000
Less: Moneys payable for assets sold during the PY	-	-
WDV of Block (as on 31.3.2023) for depreciation	38,00,000	4,00,000
Less: Depreciation allowed (see working below)	(8,10,000)	(80,000)
<b>Closing WDV of Block</b>	<b>29,90,000</b>	<b>3,20,000</b>

*Depreciation:*

P&M 15% Block	Particulars	Rs.
Normal depreciation	50% of 15% of 8 lakh (new car used for < 180 days) + 15% of remaining 30 lakh (new machinery used for $\geq$ 180 days)	5,10,000
Additional depreciation	20% of 10 lakh (new machinery used for $\geq$ 180 days) + 50% of 20% of 10 lakh (machinery purchased in PY 2021-22 was used for < 180 days; hence, 50% additional depreciation was allowed; balance now allowed in PY 2022-23). Not allowed on car, being road transport vehicle.	3,00,000
<b>Total</b>		<b>8,10,000</b>

P&M 40% Block	Particulars	Rs.
Normal depreciation	50% of 40% of 4 lakh (as computer used for < 180 days)	80,000
Additional depreciation	Not allowed on computer installed in office	-
<b>Total</b>		<b>80,000</b>

**B62. S. 32 – ADDITIONAL DEP – CA2014(MAY) - JK Ltd., a manufacturing company, purchased the following plant and machinery.**

Date of acquisition and installation	Actual cost in Rs. Crore
25 May 2022	90
31 August 2022	20
15 April 2023	120

Compute the amount of depreciation available for AY 2023-24 and 2024-25 and closing WDV. Assume that plant and machinery were purchased by way of account payee cheque.

■

*Computation of depreciation and closing WDV for AY 2023-04*

Particulars	Rs. Crore
WDV of Block as on 1 April 2022 (assumed Nil)	Nil
Add: Actual cost of assets acquired during the PY (put to use for $\geq$ 180 days) = 90 + 20	110.00
WDV of Block (as on 31.3.2023) for depreciation	110.00

Less: Depreciation:	
• Normal depreciation = 15% (general rate assumed) of 110 crore	(16.50)
• Additional depreciation = 20% of 110 crore	(22.00)
<b>Closing WDV of Block</b>	<b>71.50</b>

*Computation of depreciation and closing WDV for AY 2024-05*

Particulars	Rs. Crore
WDV of Block as on 1 April 2023 (see above)	71.500
Add: Actual cost of assets acquired during the PY (put to use for $\geq$ 180 days)	120.000
WDV of Block (as on 31.3.2024) for depreciation	191.500
Less: Depreciation:	
• Normal depreciation = 15% of 191.5 crore	(28.725)
• Additional depreciation = 20% of 120 crore	(24.000)
<b>Closing WDV of Block</b>	<b>138.775</b>

**B63. S. 32 – SLM FOR POWER UNDERTAKING** – JJ Power, an electricity company, is claiming depreciation on straight line method. It acquired the machine on 1.6.2021 at actual cost of Rs. 5,00,000. Rate of depreciation is 10%. Determine the tax treatment for AY 2023-24 if the machinery was sold on 15.12.2022 for (A) Rs. 4,00,000, (B) Rs. 4,80,000, (C) Rs. 5,30,000.

Particulars	A	B	C
Moneys payable	4,00,000	4,80,000	5,30,000
Less: Opening WDV = Actual cost of 5,00,000 – Depreciation @ 10% of 50,000	(4,50,000)	(4,50,000)	(4,50,000)
Shortfall in Case A and Excess in Cases B and C	(50,000)	30,000	80,000
Terminal depreciation u/s 32(1)(iii) = Shortfall	50,000		
Balancing charge u/s 41(2) = Excess (not exceeding depreciation claimed of 50,000)		30,000	50,000
Capital gain = Remaining excess, if any.			30,000

**B64. S. 43A** – Rakesh purchased a machinery from the USA for USD 1,20,000 on 1.10.2021 which was put to use on 1.11.2021. Purchase price was payable in 3 equal annual instalments starting from 1.10.2022. Exchange rates are as under:

1.10.2021	INR 1 = USD 75
1.10.2022	INR 1 = USD 80
1.10.2023	INR 1 = USD 70

Compute the depreciation on machinery for PY 2021-22, 2022-23 and 2023-24. Machinery is the only asset in the block entitled to 15% rate of depreciation. It is not entitled to additional depreciation.

*Computation of depreciation*

Particulars	Rs.
<b>Computation of depreciation for PY 2021-22</b>	
Actual cost of machinery = 1,20,000 USD $\times$ 75	90,00,000
Less: Depreciation at 50% of 15% of 90 lakh since machinery used for < 180 days	(6,75,000)
Closing WDV	83,25,000
<b>Computation of depreciation for PY 2022-23</b>	
WDV as on 1 April 2022	83,25,000
Add: Adjustment u/s 43A to actual cost: Increase in liability on payment of USD 40,000 = 40,000 $\times$ (80 – 75)	2,00,000
	85,25,000
Less: Depreciation @ 15%	(12,78,750)
Closing WDV	72,46,250
<b>Computation of depreciation for PY 2023-24</b>	
WDV as on 1 April 2023	72,46,250
Less: Adjustment u/s 43A to actual cost: Decrease in liability on payment of USD 40,000 = 40,000 $\times$ (75 – 70)	(2,00,000)
	70,46,250
Less: Depreciation @ 15%	(10,56,938)
Closing WDV	59,89,312

**B65. S. 32 – WDV – COMPOSITE AGRICULTURAL INCOME – CA2010(MAY)** - Mr. Tenzingh is engaged in composite business of growing and curing (further processing) coffee in Coorg, Karnataka. Whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31.3.2023 is given below.

Particulars	Rs.
WDV of car as on 1.4.2022 (15% rate)	3,00,000
WDV of machinery as on 31.3.2022 (15% rate)	15,00,000
Expenses incurred for growing coffee	3,10,000
Expenditure for curing coffee	3,00,000
Sale value of cured coffee	22,00,000

Besides being used for agricultural operations, the car is also used for personal use: disallowance for personal use may be taken at 20%. Expenses incurred for car running and maintenance are Rs. 50,000. Machines were used in coffee curing business operations. Compute the income arising from the above activities for AY 2023-24. Show the WDV of assets as on 1.4.2023.

■  
Computation of income from coffee business for AY 2023-24

Particulars	Rs.	Rs.	Rs.
Sale value of cured coffee			22,00,000
Less: Expenditure on growing coffee:			
• Expenses incurred for growing coffee	(3,10,000)		
• Car running and maintenance (80% of 50,000)	(40,000)		
• Depreciation on car (80% of depreciation on car (80% of 15% of 3 lakh)	(36,000)		
Total cost of agricultural operations		(3,86,000)	
Less: Expenditure for curing coffee:			
• Expenditure on curing coffee	(3,00,000)		
• Depreciation on machinery (15% of 15,00,000)	(2,25,000)		
Total cost of curing operations		(5,25,000)	
Total cost of composite operations			(9,11,000)
Total profits from composite activities			12,89,000
Business income (25% taxable under Rule 7B)			3,22,250
Agricultural income (75% exempt under Rule 7B)			9,66,750

Computation of WDV of depreciable assets as on 1.4.2023

Particulars	Car	Machinery
Opening WDV on 1.4.2022	3,00,000	15,00,000
Depreciation @ 15% (20% disallowed for car towards personal use)	(36,000)	(2,25,000)
WDV as on 1.4.2023	2,64,000	12,75,000

Note: For computing WDV, total depreciation is deducted u/s 43(6) as if the entire income was business income.

**B65a. S. 32 – WDV – COMPOSITE AGRICULTURAL INCOME – CA2022(MAY)** - Mr. Kabra is engaged in the business of growing and curing (further processing) coffee in the state of Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31.3.2023 are given hereunder:

Particulars	Rs.
Opening balance of the car as on 1.4.2022	3,00,000
Opening balance of machinery as on 1.4.2022	15,00,000
Expenses incurred in growing coffee	3,10,000
Expenses of curing coffee	3,00,000
Sale value of cured coffee	22,00,000

The car is used for the agricultural operations and the machine was used for coffee curing business operations. Compute the income arising from the above activities for the assessment year 2023-24 and the written down value as on 1.4.2023 (WDV as on 31.3.2023 less depreciation for the P.Y. 2022-23).

■  
Computation of income from growing and curing coffee of Mr. Kabra for AY 2023-24

Particulars	Rs.	Rs.
Sale value of cured coffee		22,00,000



Less: Expenses incurred in growing coffee	(3,10,000)	
Less: Expenses of curing coffee	(3,00,000)	
		(6,10,000)
Less: Depreciation:		
On car @ 15% of 3,00,000	(45,000)	
On machinery @ 15% of 15,00,000	(2,25,000)	
		(2,70,000)
Composite income		13,20,000
Agricultural income = 75% as per Rule 7B		9,90,000
Business income = 25% as per Rule 7B		3,30,000

*Computation of WDV as on 1.4.2023*

- Car = Opening WDV as on 1.4.2022 of 3,00,000 – depreciation of 45,000 = 2,55,000
- Machinery = Opening WDV as on 1.4.2022 of 15,00,000 – depreciation of 2,25,000 = 12,75,000

Under the provisions of section 43(6), for computing the WDV of assets acquired before the PY, the total amount of depreciation is computed as if the entire income was business income. The depreciation so computed is deemed to be the depreciation actually allowed under the Act.

**B66. S. 35AD** – Sagar is engaged in the business of setting up and operating cold chain facility, production of fertilizers and warehousing facility for consumer goods. All businesses are set up and carried out from India. Compute the income under the head PGBP or AY 2023-24. Sagar has fulfilled all the conditions stipulated u/s 35AD for eligible businesses. All expenditure has been incurred through account payee cheque. The following particulars are available:

Particulars	Cold chain business	Fertilizer business	Warehousing business
Date of commencement of business	1.4.2022	1.4.2022	1.4.2022
Expenditure during the period 1.1.2022 to 31.3.2022 (capitalized in books of account as on 1.4.2022):			
• Purchase of land	10,00,000	15,00,000	6,00,000
• Purchase of building	15,00,000	20,00,000	10,00,000
Expenditure during the period 1.4.2022 to 31.3.2023			
• Extension of building	5,00,000	4,00,000	4,00,000
• Operational expenses	10,00,000	12,00,000	5,00,000
Profits of business before deduction u/s 32 or 35AD	10,00,000	15,00,000	20,00,000

*Computation of profits and gains of business or profession for AY 2023-24*

Cold chain facility and production of fertilizers in India are specified businesses u/s 35AD whereas warehousing facility for consumer goods is not a specified business u/s 35AD.

Particulars	Cold chain business	Fertilizer business	Warehousing business
Profits of business (before deduction u/s 32 or 35AD)	10,00,000	15,00,000	20,00,000
Less: Deductions:			
• Depreciation on building = 10% of 14 lakh (10 lakh + 4 lakh) assuming building extension was put to use for > 180 days during PY 2022-23	-	-	(1,40,000)
• Deduction u/s 35AD = 100% of capital expenditure incurred prior to commencement of operations on 1.4.2022 and capitalized in books on this date (except land) + 100% of capital expenditure incurred during PY 2022-23	(20,00,000)	(24,00,000)	-
• Operational expenses: Already deducted while computing profits of business above	-	-	-
<b>Profits of business</b>	<b>(10,00,000)</b>	<b>(9,00,000)</b>	<b>18,60,000</b>

Income chargeable under the head PGBP = 18,60,000. Loss from business specified u/s 35AD can be set off only against profits from business specified u/s 35AD; hence, loss is carried forward to AY 2024-25 u/s 73A; see Chapter 11.

**B67. S. 35AD – CA2012(MAY)** – MNP Ltd., commenced operations of the business of a new 4-star hotel in Chennai on 1.4.2022. The company incurred capital expenditure of Rs. 40 lakh during the period January 2022 to March 2022 exclusively for the above

business and capitalized the same in its books of account as on 1.4.2022. Further, during the PY 2022-23, it incurred capital expenditure of Rs. 2.5 crore (out of which Rs. 1 crore was for acquisition of land) exclusively for the above business.

Compute the income under the head PGBP for AY 2023-24, assuming that MNP Ltd. has fulfilled all the conditions specified for claim of deduction u/s 35AD and has not claimed any deduction under Chapter VIA under the heading 'C – Deductions in respect of certain incomes'.

Profits from the business of running this hotel (before claiming deduction u/s 35AD) for AY 2023-24 is Rs. 80 lakhs. Assume that the company also has another existing business of running a 4-star hotel in Kanpur, which commenced operations 15 years back, the profit from which was Rs. 130 lakh for AY 2023-24. Also assume that expenditure incurred were paid by account payee cheque.

**Computation of profits and gains of business or profession for AY 2023-24**

Particulars	Rs.
Profits from specified business of new hotel in Chennai (before deduction u/s 35D)	80,00,000
Less: Deduction u/s 35AD:	
• 100% of expenditure incurred prior to commencement of operations on 1.4.2022 and capitalized in books on this date	(40,00,000)
• 100% of capital expenditure incurred during PY 2022-23 (except land)	(1,50,00,000)
Loss from specified business of hotel in Chennai	(1,10,00,000)
Profits from existing business of hotel in Kanpur	1,30,00,000
<b>Income under the head PGBP after set off of loss of one specified business against profits of another specified business in terms of section 73A (covered in detail in Chapter 11 of Concepts Book)</b>	<b>20,00,000</b>

**B68. S. 35AD – Ragini carries on business of operating sugar warehouse and manufacture of steel products. She claimed deduction of Rs. 20 lakh u/s 35AD in respect of purchase of a building on 10.4.2021 for sugar business. She, however, transferred the building to steel business on 1.12.2022. WDV of the block of building on 1.4.2022 was Rs. 15 lakh. Analyze the tax implications.**

**Tax implications arising from transfer of building from sugar business to steel business**

Particulars	Rs.
<b>Deemed business income u/s 35AD for PY 2022-23 since building used in specified business is transferred to a non-specified business within 8 years of its acquisition</b>	
Total deduction allowed u/s 35AD for building	20,00,000
Less: Depreciation allowable u/s 32 as if 35AD deduction was not allowed = 10% of Rs. 20 lakh	(2,00,000)
Deemed business income u/s 35AD	18,00,000
<b>Depreciation of the Block (Building) for PY 2022-23</b>	
Opening WDV on 1.4.2022	15,00,000
Add: Actual cost of building = Actual cost 20 lakh – Depreciation allowable since acquisition 2 lakh	18,00,000
WDV (as on 31.3.2023) for depreciation	33,00,000
Less: Depreciation @ 10%	(3,30,000)
Closing WDV	29,70,000

**B69. S. 35AD – CA2014(NOV) - Name any four specified businesses covered under section 35AD and state the fiscal incentives available to such businesses. – Refer para 94 of Concepts Book.**

**AMORTIZATION**

**B70. S. 35D – Rajat started the business of manufacturing clothes on 1.6.2022. Following expenditure was incurred by him before commencement of business.**

Preparation of project report by an approved concern	1,00,000
Market survey by self	60,000
Legal charges for drafting agreements by a law firm	40,000
Engineering services by BCD consultants (not approved u/s 35D)	3,00,000

Following balances appear in the books of the company as on 31.3.2023.

Cost of building	30,00,000
Cost of plant and machinery	10,00,000
Cost of furniture	2,00,000
Loan from Dena Bank of 15 year term	50,00,000

Compute the deduction allowable u/s 35D.

*Computation of deduction u/s 35D*

Particulars	Rs.	Rs.
<b>Specified Expenditure:</b>		
Preparation of project report by an approved concern: Eligible	1,00,000	
Market survey by self: Eligible	60,000	
Legal charges for drafting agreements by a law firm: Eligible	40,000	
Engineering services by BCD consultants: Not eligible as concern is not approved	-	2,00,000
Cost of project as shown in books as on 31.3.2023 (i.e., last day of PY in which business commences) = Cost of building, P&M, furniture	42,00,000	
Capital employed: Not relevant for a non-company assessee	-	
5% of cost of project		2,10,000
<b>Eligible specified expenditure (cannot exceed 2,10,000)</b>		<b>2,00,000</b>
<b>Deduction u/s 35D for each PY from PY 2022-23 to 2026-27 = 2,00,000 / 5</b>		<b>40,000</b>

**EXPENDITURE FOR SPECIAL PURPOSES**

**B71. S. 35** – Mr. Pharma commenced business of manufacture of medicines on 1.6.2022. Compute the deduction allowable u/s 35 for the AY 2023-24 from the following particulars of expenditure incurred since 1.4.2019.

#	Particulars	1.4.2019 to 31.5.2019	1.6.2019 to 31.5.2022	1.6.2022 to 31.3.2023
1	Purchase of land and building for scientific research (30% towards land) (not certified)	-	30,00,000	-
2	Purchase of equipment for scientific research (not certified)	1,00,000	-	-
3	Purchase of plant and machinery for manufacturing medicines (not certified)	-	-	2,50,000
4	Purchase of equipment for conducting scientific search (purchased on 1.1.2023 and put to use on 1.5.2023) (not certified)	-	-	1,25,000
5	Purchase of scientific research material	20,000	50,000 (90% certified)	30,000
6	Salary to employees engaged in scientific research	-	6,00,000 (4 lakh certified)	2,00,000
7	Expenditure on scientific research in relation to Food & Beverage sector	-	1,50,000	25,000
8	Other revenue expenses	40,000	1,80,000	1,00,000

*Computation of deduction u/s 35*

#	Deduction	Remarks
1	21,00,000	No deduction for land; certification not required for capital expenditure
2	-	Prior to 3 year period preceding commencement of business
3	-	Asset not for scientific research. Depreciation can be claimed
4	1,25,000	Put to use condition is not relevant; certification is not required
5	75,000	Pre-commencement expenditure should be certified. Expenditure before pre-commencement period is not allowed.
6	6,00,000	Pre-commencement expenditure should be certified
7	-	Not related to the business of assessee
8	1,00,000	Pre-commencement expenditure is not deductible
	<b>30,00,000</b>	

**B72. S. 35** – Compute the deduction allowable u/s 35 for AY 2023-24 from the following particulars of expenditure incurred by Mr. Hari during PY 2022-23.

Amount paid to National Science Institute (notified and approved) for scientific research	1,30,000
Amount paid to IIT, Mumbai, with a specific direction for use in an approved scientific research program	90,000

Amount paid to Zeta Ltd., an Indian company for scientific research. Main object of Zeta Ltd. is scientific R&D and it is approved u/s 35.	1,00,000
Amount paid to Beta Inc, a company registered in UK, with the main object of scientific R&D, to be used for scientific research	3,00,000
Sum paid to PQR college and DEF college (Rs. 50,000 each) to be used for statistical research. PQR college has been approved and notified for this purpose.	1,00,000
Sum paid to National Laboratory for approved scientific research program. However, the program was withdrawn subsequent to payment.	75,000
<b>Expenditure on in-house scientific research and development:</b>	
1. Revenue expenditure on scientific research	1,80,000
2. Acquisition of land	7,50,000
3. Acquisition of premises	5,00,000

■

**Computation of deduction u/s 35**

Particulars	Section	Deduction	Note
<b>Payments for scientific research:</b>			
National Science Institute	35(1)(ii)	1,30,000	
IIT, Mumbai	35(2AA)	90,000	
Zeta Ltd.	35(1)(iia)	1,00,000	
Beta Inc	35(1)(iia)	-	Not a company registered in India
PQR college	35(1)(ii)	50,000	
DEF college	35(1)(ii)	-	Not approved and notified
National Laboratory	35(2AA)	75,000	Withdrawal of program subsequent to payment does not effect deduction
<b>Expenditure on in-house scientific R&amp;D:</b>			
Revenue expenditure on scientific research	35(1)(i)	1,80,000	
Acquisition of land	35(1)(iv)	-	Expenditure on land is not deductible
Acquisition of premises	35(1)(iv)	5,00,000	
<b>Deduction u/s 35</b>		<b>11,25,000</b>	

**B73. S. 35 – CA2011(MAY) – Praveen Kumar has furnished the following particulars relating to payments made towards scientific research for the year ended 31.3.2023.**

Particulars	Rs. lakh
Payments made to K Research Ltd.	20
Payment made to LMN college	15
Payment made to OPQ college	10
Payment made to National Laboratory	8
Machinery purchased for in-house scientific research	25
Salaries to research staff engaged in in-house scientific research	12

K Research Ltd. and LMN college are approved scientific research institutions and these payments are to be used for the purpose of scientific research. Compute the amount of deduction u/s 35 for AY 2023-24 while computing income under the head PGBP.

■

**Computation of deduction u/s 35**

Particulars	Section	% deduction	Deduction Rs. Lakhs
<b>Payment for scientific research</b>			
K Research Ltd.	35(1)(ii)	100	20
LMN college	35(1)(ii)	100	15
OPQ college (assuming it is not approved)	35(1)(ii)	-	-
National Laboratory	35(2AA)	100	8
<b>In-house scientific research</b>			
Machinery purchased – capital expenditure	35(1)(iv)	100	25
Salaries to research staff	35(1)(i)	100	12
<b>Deduction allowable u/s 35</b>			<b>80</b>

### INTEREST

**B74. S. 36(1)(iii)** – Mr. Shree purchased a machinery for Rs. 10 lakh on 1.8.2022 by utilizing loan of Rs. 8 lakh taken from ICICI Bank @ 10 p.a. on 1.7.2022. The machinery was put to use on 31.12.2022. Interest was duly paid on time. Analyze the tax implications for AY 2023-24.

Particulars	Rs.
Interest for PY 2022-23 = 10% p.a. on 8 lakh for 9 months = 60,000	
Actual cost of machinery:	
• Purchase price	10,00,000
• Add: Interest till date it is first put to use = 10% p.a. on 8 lakh for 6 months (1.7.2022 to 31.12.2022)	40,000
	10,40,000
Interest deductible u/s 36(1)(iii): After the date it is first put to use = 10% p.a. on 8 lakh for 3 months (1.1.2023 to 31.3.2023). This is subject to compliance with section 43B as loan is taken from a bank.	20,000

**B75. S. 36(1)(iiia)** – Z Ltd., a public sector company, issued 10,000 notified zero coupon bonds on 10.10.2022 at issue price of Rs. 75. The face value as well as the amount payable on maturity after 3 years (i.e., on 9.10.2025) is Rs. 100. Compute the deduction available to Z Ltd. for AY 2023-24 in respect of discount on such bonds.

#### Computation of deduction

Particulars	Working	Rs.
Discount	$10,000 \times (100 - 75)$	2,50,000
Period of life of bond (calendar months)	October 2022 is considered as 1 month (since period is $\geq 15$ days) while October 2025 is to be ignored (since period is $< 15$ days)	36
Pro-rata discount p.m.	$2,50,000 / 36$	6,944
Deduction for PY 2022-23	$6,944 \times 6$ months (October 2022 to March 2023)	41,664

### EMPLOYEE WELFARE

**B76-80. CONTRIBUTION TO EMPLOYEE WELFARE FUNDS** – Analyze the tax implications for Welfare Ltd. in the following cases for AY 2023-24.

#	Case
1	Welfare Ltd. contributes Rs. 2 lakh to recognized provident fund during the PY (Rs. 1.5 lakh is compliant with the provisions of section 43B).
2	Welfare Ltd. receives Rs. 1 lakh from employees as their contribution towards recognized provident fund. Out of this, Rs. 80,000 is credited to their account by the due date as per the rules of the Fund.
3	Welfare Ltd. pays Rs. 1 lakh as gratuity to retiring employees during the PY. It does not maintain any gratuity fund.
4	Welfare Ltd. contributes to an approved gratuity fund every year. During the PY 2022-23 it pays Rs. 6 lakh as gratuity to the retiring employees from this fund.
5	Welfare Ltd. contributes 20% of basic salary to the account of each employee under the NPS. DA is 40% of basic and it forms part of pay for computing retirement benefits. Aggregate basic salary during the PY 2022-23 is Rs. 10 lakh.

#	Impact
1	1.5 lakh is deductible u/s 36(1)(iv).
2	1 lakh is first included in the income of Welfare Ltd. and thereafter, 80,000 is deductible u/s 36(1)(va). Thus, 20,000 is not deductible.
3	1 lakh is deductible u/s 37(1).
4	Contribution to approved gratuity fund is deductible u/s 36(1)(v). Payment from fund is not deductible again.
5	Salary for the purpose of 36(1)(iva) = 10,00,000 basic + 4,00,000 DA = 14,00,000. 10% thereof is 1,40,000. NPS contribution @ 20% of basic = 2,00,000. This is deductible up to 1,40,000.

### SPECIAL DEDUCTIONS

**B81-85. BAD DEBT** – Analyze the tax implications in the following cases for AY 2023-24.

#	Case
1	Yug sells goods for Rs. 3 lakh on 1.1.2021 to Shubh who does not make any payment owing to a dispute. Yug claims the amount as deduction towards bad debt for PY 2022-23 while retaining the amount of debt in his books of accounts.

2	Yug writes off Rs. 50,000 as irrecoverable on 1.5.2022, out of Rs. 3 lakh receivable from Jug towards sale of goods during PY 2020-21.
3	Yug sold plant and machinery for Rs. 10 lakh on 1.6.2021 which he was using in manufacturing products for his business. He wrote off Rs. 1 lakh on 1.7.2022 as irrecoverable.
4	Yug, carrying on business of cloth retailer, extended loan of Rs. 5 lakh to another trader to help him start a new business. He wrote off the entire loan as irrecoverable on 1.4.2022.
5	Yug, carrying on money-lending business, extended loan of Rs. 5 lakh to Shubh. Shubh became insolvent. Yug wrote off entire loan of Rs. 5 lakh together with interest due of Rs. 50,000 on 1.3.2023.

#	Deduction u/s 36(1)(vii)	Remarks
1	No	Since the debt is not written off as irrecoverable in the books of accounts.
2	Yes	Debt has been taken into account in computing income and written off as irrecoverable in the books of accounts.
3	No	Debt has not been taken into account in computing income, being sale of capital asset.
4	No	Debt has not been taken into account in computing income and also Yug is not in the business of banking or money lending
5	Yes	Interest is deductible as it has been taken into account in computing income. Principle is also deductible as it is money lent in the ordinary course of money lending business.

**B86-88. S. 40(b)** – Compute the remuneration liable to be disallowed u/s 40(b) to Rohit & Mohit, a partnership firm, in the following situations.

#	Book profit u/s 40(b)	Remuneration paid to working partners	Note
A	10,00,000	8,00,000	50,000 is not authorized by partnership deed
B	(3,00,000)	2,00,000	-
C	1,00,000	1,20,000	20,000 falls prior to the date of partnership deed

Computation of remuneration liable to be disallowed u/s 40(b)

Particulars	A	B	C
Eligible remuneration: That not authorized by partnership deed or which falls prior to the date of partnership deed is not eligible.	7,50,000	2,00,000	1,00,000
<b>Computation of remuneration allowable u/s 40(b)</b>			
On first 3 lakh of book profit or in case of loss = Higher of 1.5 lakh or 90% of book profit	2,70,000	1,50,000	1,50,000
On balance of book profit = A: 60% of 7,00,000; B & C Nil	4,20,000	-	-
Maximum remuneration allowable u/s 40(b)	6,90,000	1,50,000	1,50,000
Remuneration eligible	7,50,000	2,00,000	1,00,000
Less: Remuneration allowed u/s 40(b)	(6,90,000)	(1,50,000)	(1,00,000)
<b>Remuneration disallowed u/s 40(b) in the hands of the firm</b>	<b>60,000</b>	<b>50,000</b>	<b>-</b>

**B89. S. 40(b) – CA2011(NOV)** – Rao and Jain, a partnership firm consisting of two partners, reports a net profit of Rs. 7,00,000 before deduction of the following items:

- Salary of Rs. 20,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership).
- Depreciation on plant and machinery u/s 32 (computed) – Rs. 1,50,000
- Interest on capital @ 15% p.a. (as per the deed of partnership). Amount of capital eligible for interest is Rs. 5,00,000.

Compute profits and gains of business or profession of the firm for AY 2023-24.

Computation of profits and gains of business or profession of the firm for AY 2023-24

Particulars	Rs.	Rs.
<b>Computation of Book Profit of the firm u/s 40(b)</b>		
Net profit (before deduction of salary, depreciation and interest)		7,00,000
Less:		
• Depreciation u/s 32	(1,50,000)	
• Interest @ 12% p.a. [being the maximum allowable u/s 40(b)] = 12% of 5 lakh	(60,000)	(2,10,000)
<b>Book profit</b>		<b>4,90,000</b>

Less: Remuneration to working partners (4,80,000) subject to a maximum of amount allowable u/s 40(b) computed as follows:		
• On first 3 lakh of book profit or in case of loss = Higher of 1.5 lakh or 90% of book profit	2,70,000	
• On balance of book profit = 60% of 1,90,000	1,14,000	(3,84,000)
<b>Profit and gains of business or profession</b>		<b>1,06,000</b>

**B90. S. 40(b) - CA2021(JAN) - M/s Bhandari & Batra, a partnership firm consisting of two partners, reports a net profit of Rs. 7,00,000 before deduction of the following items:**

- Salary of Rs. 20,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership).
- Depreciation on plant and machinery u/s 32 of Rs. 1,50,000.
- Interest on capital of 15% p.a. (as per deed of partnership). The amount of capital eligible for interest is Rs. 5,00,000.
- Carry forward loss of PY 2021-22 is Rs. 50,000.

Compute for AY 2022-23:

- Book profit of the firm u/s 40(b).
- Amount of salary that can be paid to working partners as per section 40(b).

*Computation of book profits of the firm for AY 2023-24*

Particulars	Rs.	Rs.
Net profit (before deduction of salary, depreciation, interest)		7,00,000
Less: Depreciation	1,50,000	
Less: Interest deductible u/s 40(b) @ 12% of 5 lakh	60,000	(2,10,000)
Book profit (salary to partners and c/fd loss is not to be adjusted)		<b>4,90,000</b>

*Computation of salary that can be paid to working partners u/s 40(b)*

Particulars	Rs.
On first 3 lakh of book profit or in case of loss = Higher of 1.5 lakh or 90% of book profit	2,70,000
On balance of book profit = 60% of 1,90,000	1,14,000
Salary that will be allowed to the firm u/s 40(b)	<b>3,84,000</b>

**GENERAL DEDUCTION**

**B91-139a. S. 37 – Determine whether the following expenditure will be allowed as deduction in computing business income.**

#	Expenditure
1	Loss due to embezzlement by employee
2	Rent of building hired for business
3	Municipal taxes for office building
4	Routine repair of furniture
5	Insurance premium for machinery
6	Insurance premium for stock in trade
7	Construction of new floor in the office building
8	Purchase of books by a lawyer
9	Cost of goods sold
10	Sundry office expenses
11	Electricity expenses
12	Freight and installation expenses for machinery that are incurred before it is put to use
13	Payment to a university (approved and notified) for scientific research
14	Purchase of laboratory equipment for conducting in-house scientific research related to the business of assessee
15	Contribution to National Urban Poverty Eradication Fund
16	Market survey and feasibility study carried out by the assessee before commencement of business
17	Compensation paid to employees under voluntary retirement scheme
18	Building, plant, machinery and furniture purchased for a new fertilizer production business in India
19	Salary paid to employees
20	Health insurance premium paid for employees by cheque
21	Bonus and commission paid to employees

22	Employer's contribution to recognized provident fund
23	Employee's contribution to recognized provident fund received from employees but not paid by the due date as per the rules of the fund
24	Payment to approved gratuity fund even though no gratuity is payable during the PY
25	Amount payable by customers written off as irrecoverable in the books of accounts
26	Interest on loan taken from State Bank of India for purchase of office vehicles (interest pertains to the period after vehicles are first put to use)
27	Brokerage, commission and bank charges paid for arranging a business loan
28	Interest on unpaid purchase price of raw material
29	Interest on loan taken from a colleague to meet office expenses
30	Securities Transaction Tax paid on transaction in shares held as investment
31	Premium paid on Keyman insurance policy taken on the life of CEO of the company
32	Payment to lawyer for defending tax appeal in the Supreme Court
33	Payment to Chartered Accountant for compliance with various provisions of income tax and GST
34	Damages paid to buyer for not delivering goods on time
35	Advertisement and sales promotion expenses
36	Celebration expenses in office on the occasion of Diwali and Holi
37	Fee paid for employees attending a business conference to upskill them on business skills
38	Provision created to meet expenses on damages which may need to be paid if a legal dispute is lost in the court
39	Income tax paid for the current previous year
40	CSR expenditure incurred under the Companies Act
41	Penalty paid under GST law for contravening the e-way bill provisions
42	Penalty paid under a tax law to compensate for delay in payment of tax
43	Bribe paid to income tax officer to pass a favorable order
44	Advertisement in a brochure published by JJP, a political party
45	Loss of stock in trade due to fire
46	Expenditure on business travel incurred during the preceding previous year (assessee follows mercantile system of accounting)
47	Dividend paid to shareholders
48	Postage, stationery, food and beverage expenses
49	Purchase of computers and computer software
50	Protection money paid to the local politician of a foreign country to buy peace in the area where factory is being set up

■ Answer: 1. Yes u/s 29 (as per general principles); 2. Yes u/s 30; 3. Yes u/s 30 (subject to 43B); 4. Yes u/s 31; 5. Yes u/s 31; 6. Yes u/s 36(1)(i); 7. No (depreciation allowed u/s 32); 8. No (depreciation allowed u/s 32); 9. Yes u/s 37(1); 10. Yes u/s 37(1); 11. Yes u/s 37(1); 12. No (added to actual cost for depreciation u/s 32); 13. Yes u/s 35; 14. Yes u/s 35; 15. Yes u/s 35CCA; 16. Yes u/s 35D (amortized over 5 years); 17. Yes u/s 35DDA (amortized over 5 years); 18. Yes u/s 35AD (if opted for); 19. Yes u/s 37(1); 20. Yes u/s 36(1)(ib); 21. Yes u/s 36(1)(ii) (subject to 43B); 22. Yes u/s 36(1)(iv) (subject to 43B); 23. No u/s 36(1)(va) (not paid by the due date); 24. Yes u/s 36(1)(v) (subject to 43B); 25. Yes u/s 36(1)(vii); 26. Yes u/s 36(1)(iii) (subject to 43B); 27. Yes u/s 37(1); 28. Yes u/s 37(1); 29. Yes u/s 36(1)(iii); 30. No u/s 36(1)(xv) (as shares are not stock-in-trade); 31. Yes u/s 37(1); 32. Yes u/s 37(1); 33. Yes u/s 37(1); 34. Yes u/s 37(1); 35. Yes u/s 37(1); 36. Yes u/s 37(1); 37. Yes u/s 37(1); 38. No u/s 37(1) (it is contingent in nature); 39. No u/s 40(a)(ii) (disallowed); 40. No u/s 37(1), Explan 2 (disallowed); 41. No u/s 37(1) (it is penal in nature); 42. Yes u/s 37(1) (it is compensatory in nature); 43. No u/s 37(1) (it is offence/prohibited by law); 44. No u/s 37(2B) (disallowed); 45. Yes u/s 29 (as per general principles); 46. No u/s 37(1) (doesn't pertain to current PY); 47. No u/s 37(1) (it is appropriation of profits); 48. Yes u/s 37(1); 49. No Depreciation allowed u/s 32; 50. No u/s 37(1) (offence/prohibited by law under law in force outside India).

#### EXPENSES NOT DEDUCTIBLE IN CERTAIN CIRCUMSTANCES

**B140-144. S. 40(a)(i)/(ia)** – Determine the PY in which the expenditure on account of payment of fees for professional service of Rs. 1,00,000 incurred during the PY 2022-23 by Radius Ltd. will be allowed in the following situations. Due date to file return for Radius Ltd. is 30 November.

#	Status of payee	Tax deducted by payer on	Tax paid by payer on	Action by payee, if any
1	NR	15.3.2023	15.12.2023	-
2	ROR	15.3.2023	30.11.2023	-
3	ROR	15.3.2023	1.12.2023	-



4	RNOR	Not deducted	Not paid	-
5	ROR	Not deducted	Not paid	Return furnished on 1.11.2023 after including Rs. 1 lakh and paying tax due.

#	Deduction admissible	Remarks
1	1,00,000 in PY 2023-24	Tax is deducted in PY 2022-23 but paid after due date to furnish return of such PY. Allowed u/s 40(a)(i) in the PY in which tax is paid.
2	1,00,000 in PY 2022-23	Tax is deducted in PY 2022-23 and paid on or before the due date to furnish return of such PY. No disallowance u/s 40(a)(ia).
3	70,000 in PY 2022-23; 30,000 in PY 2023-24	Tax is deducted in PY 2022-23 but paid after due date to furnish return of such PY. 30% is disallowed u/s 40(a)(ia) for PY 2022-23 but allowed in PY in which tax is paid.
4	70,000 in PY 2022-23	Tax is not deducted and not paid. 30% is disallowed u/s 40(a)(ia).
5	70,000 in PY 2022-23; 30,000 in PY 2023-24	Tax is not deducted by payer in PY 2022-23 but payee has furnished return after including such sum in his income in return and has paid tax due. 30% is disallowed in PY 2022-23 and allowed u/s 40(a)(ia) in PY in which return is furnished by payee, assuming Radius Ltd. has furnished the required certificate.

**B145. S. 40(a)(ia)** - Compute the amount of income under the head PGBP in the hands of Roshan for the AY 2023-24 from the following particulars pertaining to PY 2022-23. Due date to file return of income is 31.7.2023.

Particulars	Amount	TDS compliance
Gross receipts from profession	55,00,000	-
Salary to employees	10,00,000	Salary for March 2023 of Rs. 2 lakh was paid on 31.3.2023 without deducting and paying TDS. Corresponding tax was not paid by employees directly.
Commission to agent	1,00,000	TDS was deducted on 15.3.2023 and paid on 31.7.2023.
Catering charges for business function	1,50,000	TDS was deducted on 15.3.2023 and paid on 1.8.2023.
Fees for professional services	25,000	TDS was neither deducted nor paid

All payments were made to persons resident in India. Gross receipts from profession was Rs. 60 lakh for FY 2021-22.

**Computation of income under the head PGBP for AY 2023-24**

Particulars	Rs.	Remarks
Gross receipts from profession	55,00,000	-
Salary to employees	(9,40,000)	TDS is deductible u/s 192 (para 212 of Concepts Book). Tax is not deducted and paid. 30% of 2 lakh is disallowed u/s 40(a)(ia).
Commission to agent	(1,00,000)	TDS is deductible u/s 194H since gross receipts from profession is > 50 lakh in preceding FY 2021-22 (para 215 of Concepts Book). Tax is deducted in PY 2022-23 and paid on or before due date to furnish return of such PY. No disallowance u/s 40(a)(ia).
Catering charges for business function	(1,05,000)	TDS is deductible u/s 194C since gross receipts from profession is > 50 lakh in preceding FY 2021-22 (para 216 of Concepts Book). Tax is deducted in PY 2022-23 but paid after due date to furnish return of such PY. 30% is disallowed u/s 40(a)(ia); it will be allowed in PY in which tax is paid, i.e., PY 2023-24.
Fees for professional services	(25,000)	TDS is not deductible u/s 194J as sum is ≤ the limit of 30,000 specified under that section (para 216 of Concepts Book). No disallowance u/s 40(a)(ia)
<b>PGBP income</b>	<b>43,30,000</b>	

**B146-150. S. 40A(2)** – Identify whether the following expenditure can be disallowed u/s 40A(2) in the hands of Rohan, carrying on business of electronics, for AY 2023-24.

#	Expenditure
1	Purchase of raw material from his brother for Rs. 1 lakh. Market value is Rs. 60,000.
2	Rs. 2 lakh paid for consultancy service taken from PQR Pvt. Ltd. in which Rohan's sister holds 25% equity shares. Market value of such service is Rs. 50,000.

3	Vehicles taken on hire for Rs. 6 lakh from Z Pvt. Ltd. in which Rohan holds 10% equity shares. Rs. 4 lakh is charged for similar arrangement in the market.
4	Products sold to his father for Rs. 1 lakh where similar products are sold in the market for Rs. 75,000.
5	Repayment of loan taken from partnership firm in which Rohan is a partner with 30% share.

#	Disallowance	Remarks
1	Rs. 40,000	Brother is a related party. Excess payment will be disallowed.
2	Rs. 1.5 lakh	Sister is a relative and she has substantial interest in the company as her equity holding is $\geq 20\%$ . Hence, PQR Pvt. Ltd. is related party for Rohan. Excess payment will be disallowed.
3	No	Rohan does not have substantial interest in the company as equity holding is $< 20\%$ . Z Pvt. Ltd. is not a related party for Rohan. 40A(2) is not applicable.
4	No	Sale value is not an expenditure for Rohan. Hence, 40A(2) is not applicable.
5	No	Firm is a related party as Rohan is entitled to profit share of $\geq 20\%$ . However, repayment of loan is not an expenditure. Hence, 40A(2) is not applicable.

**B151-158. S. 40A(3)** – Identify whether the following expenditure can be disallowed u/s 40A(3) in the hands of Roshan, following mercantile system of accounting, for AY 2023-24.

#	Case
1	Payment to Jones of Rs. 40,000 for legal services – Four cash payments of Rs. 8,000 are made each on 1 June 2022.
2	Payment to Jones of Rs. 32,000 for goods supplied – Four cash payments of Rs. 8,000 are made each on 1 June, 2 June, 3 June and 4 June 2022.
3	Payment to Jones and Jane of Rs. 8,000 each in cash on 1 June 2022 for consultancy services
4	Payment to Shri Ltd. for raw material purchased on credit on 1 June 2021 for Rs. 20,000. Payment is made by uncrossed cheque on 1 June 2022.
5	Payment to brother in cash on 1 May 2022 for hiring machinery for Rs. 20,000. Hire charges in the market are Rs. 8,000.
6	Repayment of loan taken from ICICI Bank. Principal of Rs. 1,00,000 and interest of Rs. 20,000 is paid in cash on 1 May 2022.
7	Jones sold goods for Rs. 1 lakh to Roshan on 1 May 2022. Roshan provided services to Jones for Rs. 60,000 on 1 June 2022. This was adjusted in the accounts by an entry made on 1 May 2022.
8	Cash payment of Rs. 50,000 is made to Railways on 1 May 2022 for transportation of goods.

#	Disallowance u/s 40A(3)	Remarks
1	Yes	Aggregate of payments to a person in a day by non-specified mode is $> 10,000$ .
2	No	Payment to a person in a day by non-specified mode is not $> 10,000$ .
3	No	Payment to a person in a day by non-specified mode is not $> 10,000$ .
4	-	Payment will be deemed business income for PY 2022-23 as it is made to a person in a day by non-specified mode being $> 10,000$ .
5	12,000 u/s 40A(2)	Brother is a related party. Excess of 12,000 is disallowed u/s 40A(2). Balance of 8,000 is not $> 10,000$ . No disallowance u/s 40A(3).
6	No	Principal repayment is not expenditure. Interest paid to bank is covered as an exception under Rule 6DD
7	No	Book adjustment is covered as an exception under Rule 6DD.
8	No	Payment to Government is covered as an exception under Rule 6DD.

**B159-168. S. 43B** – Determine the year in which the following expenses incurred by Bharat, for the purposes of his business during the PY 2022-23, will be allowed as deduction. Due date of filing return of income for Bharat is 31.10.2023.

#	Expense
1	Commission on sales paid to employees on 15.4.2023.
2	Bharat's contribution to recognized PF of employees – Rs. 50,000 paid on 10.3.2023 and Rs. 30,000 paid on 1.12.2023. Due date as per PF law is 15 days from the close of every month.
3	GST and customs duty paid on 15.9.2023 – Rs. 1 lakh
4	Municipal taxes on factory building not paid – Rs. 60,000
5	Bharat's contribution to approved superannuation fund for employees paid on 31.10.2023 – Rs. 45,000
6	Interest on loan taken from friend, paid on 1.3.2024 – Rs. 50,000
7	Interest on loan taken from HDFC, paid on 1.3.2024 – Rs. 50,000

8	Electricity bill of UPPCL paid on 15.11.2023 – Rs. 2 lakh
9	Annual bonus to employees declared on Diwali of 2022 and paid on 1.10.2023 – Rs. 3 lakh
10	Income-tax of PY 2022-23 paid on 1.10.2023 – Rs. 1 lakh

#	PY of deduction	Section	Remarks
1	PY 2022-23	36(1)(ii) + 43B	Sum is paid on or before due date to furnish return of PY 2022-23.
2	50,000 for PY 2022-23; 30,000 for PY 2023-24	36(1)(iv) + 43B	Due date as per PF Rules is not relevant for deductibility of employer's contribution. 30,000 is paid after due date to furnish return for PY 2022-23, hence, deductible in year of actual payment.
3	PY 2022-23	37(1) + 43B	Sum is paid on or before due date to furnish return of PY 2022-23.
4	-	30 + 43B	Not deductible since not paid.
5	PY 2022-23	36(1)(iv) + 43B	Sum is paid on or before due date to furnish return of PY 2022-23.
6	PY 2022-23	36(1)(iii)	Section 43B is not applicable to interest on loan taken from friend.
7	PY 2023-24	36(1)(iii) + 43B	Sum is paid after due date to furnish return for PY 2022-23, hence, deductible in year of actual payment.
8	PY 2022-23	37(1)	Section 43B is not applicable.
9	PY 2022-23	36(1)(ii) + 43B	Sum is paid on or before due date to furnish return of PY 2022-23.
10	Disallowed	40(a)(ii)	Income-tax is not deductible in the first place.

**B169. S. 43B** – Gyani, engaged in manufacturing business, took loans of Rs. 10 crore each from Bank of India and Dena Bank. Unpaid interest on these loans as on 31.3.2022 amounted to Rs. 50 lakh and Rs. 30 lakh, respectively. Gyani entered into a restructuring arrangement with both the banks as per which the unpaid interest was converted into fresh loans of the same amount without interest. These were to be repaid in 48 equal monthly instalments from April 2022. During the PY 2022-23, Gyani paid 9 instalments of each of the fresh loans. Determine the deduction allowable to him for AY 2023-24 in respect of interest.

■ Interest converted into a loan is not deductible. Such converted interest is deductible only once it is actually paid. Interest deductible u/s 36(1)(iii) read with 43B for AY 2023-24 is computed below.

Bank	Interest outstanding	No. of instalments	Amount per instalment	Instalments paid	Interest allowable
Bank of India	50 lakh	48	1,04,167	9	9,37,503
Dena Bank	30 lakh	48	62,500	9	5,62,500
<b>Total amount eligible for deduction</b>					<b>15,00,003</b>

### SPECIAL PROVISIONS

**B170-175. S. 41(1)** – Identify whether deemed profits would arise u/s 41(1) for AY 2023-24 in the following situations in the hands of Zen, carrying on manufacturing business.

#	Situation
1	Refund of excise duty of Rs. 20,000 on 1.10.2022 which was claimed as deduction for PY 2020-21.
2	Deduction of Rs. 1 lakh on account of telephone expenses allowed for PY 2021-22. Out of this, Rs. 20,000 is refunded on 1.10.2022 as the earlier billing was erroneous.
3	Refund of GST of Rs. 50,000 received by Zen's daughter on 1.10.2022 who has succeeded Zen in his business after his death. This amount was deducted while computing business income of Zen for PY 2019-20.
4	Zen purchased goods on credit from Yen on 1.10.2020 for Rs. 1 lakh and this was allowed as deduction in his hands for PY 2020-21. Owing to a dispute regarding defect in the goods, Yen agreed to accept Rs. 60,000 in full and final settlement. Zen made the payment on 1.10.2022 and squared off the account.
5	Stock-in-trade worth Rs. 5 lakh was destroyed in fire on 1.10.2021 and this was deducted as a business loss for PY 2021-22. Zen received Rs. 2 lakh as compensation from the insurance company on 1.10.2022.
6	Zen obtained a loan of Rs. 5 lakh from another businessman on 1.10.2021. The loan was waived off by the lender on 1.10.2022.

#	Deemed profits u/s 41(1)
1	Amount is recovered against expenditure earlier allowed as deduction. 20,000 is taxable u/s 41(1) in PY 2022-23.
2	Amount is recovered against expenditure earlier allowed as deduction. 20,000 is taxable u/s 41(1) in PY 2022-23.
3	Amount is recovered against expenditure earlier allowed as deduction. 50,000 is taxable u/s 41(1) in PY 2022-23 in the hands of the successor.

4	It is remission or cessation of trading liability earlier allowed as deduction. 40,000 is taxable u/s 41(1) in PY 2022-23.
5	Amount is recovered against loss earlier allowed as deduction. 2 lakh is taxable u/s 41(1) in PY 2022-23.
6	Not taxable as deemed profits u/s 41(1) since deduction not made on this count earlier. <sup>1</sup>

**B176-178. S 43CA** – Sky Builders has sold a building, held as stock-in-trade, on 10.12.2022 whose cost of construction is Rs. 10 lakh. Compute the income arising on sale for the AY 2023-24 based on the following particulars.

Particulars	I	II	III
Consideration	20,00,000	20,00,000	20,00,000
Date of agreement	10.11.2022	10.11.2022	10.11.2022
SDV on date of agreement	21,00,000	21,00,000	23,00,000
Date of registration	10.12.2022	10.12.2022	10.12.2022
SDV on date of registration	24,00,000	24,00,000	25,00,000
Receipt of consideration	20 lakh on date of transfer (by a/c payee cheque)	10 lakh on date of agreement (by a/c payee cheque); 10 lakh on date of transfer (by a/c payee cheque)	10 lakh on date of agreement (by bearer cheque); 10 lakh on date of transfer (by a/c payee cheque)

■  
Computation of income from sale of building

Particulars	I	II	III
Full value of consideration (FVC) u/s 43CA (Note)	24,00,000	20,00,000	25,00,000
Less: Cost	(10,00,000)	(10,00,000)	(10,00,000)
<b>Income on sale</b>	<b>14,00,000</b>	<b>10,00,000</b>	<b>15,00,000</b>

Note:

**I:** SDV is taken as FVC as it is > 110% of consideration. SDV on date of agreement is not considered as consideration (or part) is not received on or before that date by a specified mode.

**II:** Consideration is taken as FVC as SDV is not > 110% of consideration. SDV on date of agreement is considered as consideration (or part) is received on or before that date by a specified mode.

**III:** SDV is taken as FVC as it is > 110% of consideration. SDV on date of agreement is not considered as consideration (or part) not received on or before that date by a specified mode.

**B179. S. 43CA** – DLF Ltd, a builder, sold a building, held as stock-in-trade, on 1.9.2022 for Rs. 75 lakh (SDV as on this date is Rs. 90 lakh).

- (a) What will be taken as the full value of consideration for computing profits and gains from the transfer of building?  
 (b) DLF Ltd. claims that FMV as on 1.9.2022 is Rs. 80 lakh and it has not disputed the SDV in any forum. AO refers the valuation of building to the DVO who determines the value to be (A) 92 lakh, or (B) 80 lakh. What will be taken as the full value of consideration?

■ (a) SDV of 90 lakh will be taken as FVC as SDV is > 110% of consideration. (b) Case A: DVO valuation is 92 lakh. FVC will be taken as SDV of 90 lakh as DVO valuation is > SDV. Case B: DVO value is 80 lakh. DVO valuation will be taken as FVC as it is ≤ SDV.

**COMPLIANCE**

**B180-183. S. 44AA** – Identify whether Suraj Sharma needs to maintain books of accounts under the Income Tax Act for the PY 2022-23 in the following situations.

#	Business/ profession	Parameter	PY 2022-23	PY 2021-22	PY 2020-21	PY 2019-20
1	Lawyer	Gross receipts	1.5 lakh	1.6 lakh	1.8 lakh	1.9 lakh
		Income from profession	(50,000)	(40,000)	20,000	70,000
2	Film music director	Gross receipts	12.5 lakh	10.5 lakh	5.5 lakh	1.4 lakh
		Income from profession	10 lakh	8 lakh	4 lakh	1 lakh
3	Author	Gross receipts	26 lakh	24 lakh	23 lakh	20 lakh
		Income from profession	3 lakh	2 lakh	2.6 lakh	1 lakh

<sup>1</sup> It may, however, be noted that waiver of loan taken for trading activities can be taxed under the general principles [222 ITR 344 (SC)]. Further, waiver of loan taken for capital purposes can be taxed u/s 2(24)(xviii) in certain cases.

4	Bookseller	Turnover	27 lakh	20 lakh	24 lakh	25 lakh
		Income from business	3 lakh	2.4 lakh	1.5 lakh	1.8 lakh

■

#	Requirement
1	Lawyer is a specified profession. Gross receipts is > 1.5 lakh in all the 3 preceding PYs. Books/documents are to be kept and maintained as per Rule 6F.
2	Film artist is a specified profession. Gross receipts is not > 1.5 lakh in all the 3 preceding PYs. Such books/documents are to be kept and maintained as would enable AO to compute total income.
3	Author is a non-specified profession. Income from profession is > 2.5 lakh in one of the 3 preceding PYs. Such books/documents are to be kept and maintained as would enable AO to compute total income.
4	It is a business. Income from business is not > 2.5 lakh and S/TO/GR is not > 25 lakh in any of the 3 preceding PYs. No requirement is prescribed.

**B184-188. S. 44AB** – Identify whether Veena needs to get her books of accounts audited u/s 44AB of the Income Tax Act for AY 2023-24 in the following cases based on the following particulars given for PY 2022-23.

#	Business/profession	S/TO/GR in business or GR in profession*	Total receipts	Receipts in cash mode**	Total payments	Payments in cash mode**
1	Doctor	45 lakh	55 lakh	20 lakh	15 lakh	10 lakh
2	Retailer	1 crore	1.2 crore	10 lakh	40 lakh	Nil
3	Retailer	11 crore	11 crore	Nil	5 crore	Nil
4	Retailer	4 crore	4 crore	15 lakh	2 crore	15 lakh
5	Retailer	2 crore	2 crore	9 lakh	1 crore	4 lakh

\*S/TO/GR refers to sales, turnover or gross receipts. \*\*Refers to cash or cheque/bank-draft (which is not A/c payee).

■

#	Tax audit?
1	GR is not > 50 lakh. Tax audit is not required.
2	Receipts in cash mode is > 5% of total receipts. Limit of S/TO/GR is 1 crore. Tax audit is not required as it is not > 1 crore.
3	Receipts in cash mode is not > 5% of total receipts and payments in cash mode is not > 5% of total payments. Limit of S/TO/GR is 10 crore. Tax audit is required as it is > 10 crore.
4	Payments in cash mode is > 5% of total payments. Limit of S/TO/GR is 1 crore. Tax audit is required as it is > 1 crore.
5	Receipts in cash mode is not > 5% of total receipts and payments in cash mode is not > 5% of total payments. Limit of S/TO/GR is 10 crore. Tax audit is not required as it is not > 10 crore.

### PRESUMPTIVE INCOME FOR SMALL ENTERPRISES

**B189. S. 44AD – CA2018(MAY) (modified)** - Mr. Quereshi is a businessman. During the year ended 31.3.2023, he was engaged in the business of hypermarket and supermarket. He maintains proper books of accounts for both businesses in mercantile system. Sales from hypermarket achieved a turnover of Rs. 75 lakh and all receipts were in cash. However, supermarket business is through online and entire receipts of Rs. 50 lakh during the year were received online in his bank account. Expenses were incurred in the ratio 65:35. Following additional information is furnished.

To salary	10,00,000
To repairs on building	1,81,000
To interest	1,10,000
To travelling	1,30,550
To depreciation	8,12,000
Net profit	3,93,950

- In addition to the above, repairs of Rs, 1,00,000 were incurred for building a new room which was debited to P&L A/c.
- Depreciation as per Income Tax Act is Rs. 7,17,000.
- Rs. 75,000 was paid in cash on 30.9.2022 to Mrs. Jane, accountant, for preparation of accounts for the year ended 31.3.2022 and adjusted under the head 'expenses payable' account.
- Mr. Quereshi wants to declare income under 'presumptive income' basis.

Compute the income chargeable under the head 'Profits and gains of business or profession' of Mr. Quereshi u/s 44AD.

■ Since total turnover for PY 2022-23 of Rs. 1.25 crore is up to Rs. 2 crore and he has not claimed deduction u/s 10AA or Chapter VIA-C, he is eligible to opt for presumptive income scheme u/s 44AD. It is assumed that Mr. Quereshi is a resident.

*Computation of profits and gains of business or profession of Mr. Quereshi under presumptive income scheme u/s 44AD*

Particulars	Rs.
Hypermarket business (100% cash sales) = 8% of 75 lakh	6,00,000
Supermarket business (online sales) = 6% of 50 lakh	3,00,000
<b>Profits and gains of business or profession computed u/s 44AD</b>	<b>9,00,000</b>

No deduction is allowed in respect of any expenditure.

Since Mr. Quereshi maintains proper books of accounts, his income as per books can be computed and if such income is more than income computed u/s 44AD, the higher income can be declared u/s 44AD.

*Computation of profits and gains of business or profession of Mr. Quereshi as per books of account*

Particulars	Rs.	Rs.
Net profit (as given in question)		3,93,950
<i>Add:</i>		
Depreciation debited in the books (not as per Income Tax Act)	8,12,000	
Cash payment in excess of Rs. 10,000 to accountant in a day (disallowed u/s 40A(3))	75,000	
Building construction expenditure debited to P&L (not deductible)	1,00,000	9,87,000
<i>Less:</i>		
Depreciation under Income Tax Act	7,17,000	
Depreciation on building extension of a room @ 10% (assuming it is not included in the above figure of depreciation)	10,000	(7,27,000)
<b>Profits and gains of business or profession computed as per books of account</b>		<b>6,53,950</b>

Profits and gains computed as per books is less than that computed u/s 44AD. However, since Mr. Quereshi wants to declare presumptive income u/s 44AD, his income under the head PGBP would be Rs. 9,00,000.

**B190. S. 44AD/44ADA – MASTER QUESTION** - Compute income under the head PGBP in case of Rachna, a resident aged 45 years, for AY 2023-24, from the following particulars if she is (A) a retailer, or (B) an engineer. Due date to file return of income u/s 139(1) is 31.7.2023. She does not have any other source of income. She had opted for taxation under the presumptive income provisions first during PY 2021-22. Advise her on the tax implications.

Particulars	Rs.	Rs.	Rs.
Total turnover / gross receipts for the PY 2022-23	45,00,000		
Turnover / gross receipt received:		By a/c payee cheque	By cash
• From 1.4.2022 to 31.3.2023		25,00,000	5,00,000
• From 1.4.2023 to 31.7.2023		5,00,000	2,00,000
• From 1.8.2023 to 31.10.2023		2,00,000	1,00,000
• From 1.11.2023 to 31.12.2023		3,00,000	2,00,000
Depreciation as per Income Tax Act	10,00,000		
Other expenses (Rs. 1,00,000 paid in cash on 15.12.2022 to Mr. B)	34,00,000		
Deduction claimed u/s 80C	1,50,000		

*Computation of profits and gains of business or profession of Rachna u/s 44AD or 44ADA*

Rachna is a resident individual. In case A, she is eligible to claim presumptive income computation u/s 44AD since turnover is not > 2 crore and she does not claim deduction u/s 10AA or Chapter VIA-C (section 80C is covered under Chapter VIA-B and not Chapter VIA-C). In case B, she is eligible to claim presumptive income computation u/s 44ADA as she is carrying on a specified profession and gross receipt is not > 50 lakh.

Particulars	Case A	Case B
Income u/s 44AD:		
• 6% of turnover received by a/c payee cheque till due date of return = 6% of 30,00,000	1,80,000	
• 8% of remaining turnover = 8% of 15,00,000	1,20,000	
Income u/s 44ADA = 50% of 45,00,000		22,50,000
<b>Profits and gains of business or profession</b>	<b>3,00,000</b>	<b>22,50,000</b>

Deductions u/s 30 to 38 are deemed to have been allowed. Hence, no further deduction is allowed.

*Computation of profits and gains of business or profession of Rachna as per books*

Particulars	Rs.
Total turnover /gross receipts	45,00,000
Less:	
• Depreciation	(10,00,000)
• Other expenses (Rs. 1,00,000 paid in cash disallowed u/s 40A(3) as it is > 10,000)	(33,00,000)
<b>Profits and gains of business or profession</b>	<b>2,00,000</b>

**Case A:** Income computed as per presumptive income provisions of section 44AD is more than income computed as per books. PY 2021-22 being the first year of opting for section 44AD, she should continue to do so for PY 2022-23 to 2026-27. If she does not opt for section 44AD in PY 2022-23 (in order to claim lower profits and gains as per books), benefit of section 44AD will cease for 5 PYs subsequent to PY 2022-23 and she will need to comply with sections 44AA and 44AB for those years if her total income is > basic exemption limit of Rs. 2,50,000.

**Case B:** Income computed as per presumptive income provisions of section 44ADA is more than income computed as per books. She can claim the lower income as per books. In such case, she will need to comply with sections 44AA and 44AB for PY 2022-23 if her total income is > basic exemption limit of Rs. 2,50,000.

**B191. S. 44AE - CA2021(JULY) – M/s MN & Co., a partnership firm, is engaged in the business of plying and hiring goods vehicles. It owns following vehicles as on 1.4.2022:**

Gross vehicle weight (in kgs)	Number of vehicles
7,000	2
9,000	2
12,000	3
15,000	2

It purchased a vehicle weighing 15,000 kg on 6.6.2022 which was put to use only on 10.7.2022. Net profits of the firm (after claiming partner's remuneration of Rs. 1,50,000 and within the limits prescribed u/s 40(b)) from the above business, as per books of accounts, amounted to Rs. 6,50,000. The firm has declared its income for AY 2023-24 in accordance with the provisions of presumptive income u/s 44AE.

1. Compute the income of the firm if it opts for the provisions of section 44AE for AY 2023-24.
2. If the firm wants to claim its income as per books of accounts for AY 2023-24, what are its obligations under the Act?
3. What is the due date for filing its return of income under both the options?

■ Since the firm is engaged in the business of plying and hiring goods vehicles and it does not own > 10 goods carriages at any time during the PY, it is eligible for section 44AE.

*Computation of presumptive income as per section 44AE*

Gross vehicle weight (kg)	No. of carriages	No. of months (or part of month) carriage owned during PY	Rate p.m. (per ton p.m. for HGV)	Ton	Presumptive income
(1)	(2)	(3)	(4)	(5)	(1) × (2) × (3) × (4)
<b>Heavy goods vehicle (&gt; 12 ton)</b>					
15,000	2	12	1,000	15	3,60,000
15,000	1	10*	1,000	15	1,50,000
<b>Other than heavy goods vehicle</b>					
7,000	2	12	7,500	-	1,80,000
9,000	2	12	7,500	-	1,80,000
12,000	3	12	7,500	-	2,70,000
					<b>11,40,000</b>

\*Months vehicle is owned is to be considered and not months used.

*Computation of income of the firm for AY 2023-24 if it opts for section 44AE*

Particulars	Rs.
Income as computed u/s 44AE	11,40,000
Less: Partner's remuneration within the limits prescribed u/s 40(b)	(1,50,000)
	<b>9,90,000</b>

If the firm wants to claim its income as per books of accounts of 6,50,000 (which is lower than income of 9,90,000 computed based on section 44AE), it should maintain books of account u/s 44AA and get tax audit done u/s 44AB.

If the firm opts for section 44AE, it would not need to comply with section 44AB. Its due date to furnish return would be 31 July 2023. However, if it does not opt for section 44AE, it would need to comply with section 44AB and its due date to furnish return would be 31 October 2023 (see para 232 of Concepts Book).

*Mistake by students – Lack of preparation while computing business income applying section 44AE.*

**B192. S. 44AE – MASTER QUESTION** - Sunanda is engaged in the business of plying, hiring and leasing goods carriages. She has furnished the following particulars of goods carriages that she owns:

Gross vehicle weight	No. of carriages	Purchased	Put to use during PY 2022-23	Sold
15,000 kg	5	12.3.2022	Yes	1 vehicle sold on 20.4.2022
12,000 kg	5	15.3.2022	Yes	1 vehicle sold on 20.6.2022
10,000 kg	2	15.12.2022	On 5.1.2023	-

She collected Rs. 15,00,000 as freight charges and incurred operational expenses of Rs. 6,00,000. Depreciation u/s 32 was computed at Rs. 2,50,000. Compute the income from business for AY 2023-24.

■ Sunanda can avail the presumptive income provision of section 44AE as she is engaged in the business of plying, hiring and leasing goods carriages and she does not own > 10 goods carriages at any time during the PY.

*Computation of presumptive income as per section 44AE*

Gross vehicle weight (kg)	No. of carriages	No. of months (or part of month) carriage owned during PY	Rate p.m. (per ton p.m. for HGV)	Ton	Presumptive income
(1)	(2)	(3)	(4)	(5)	(1) × (2) × (3) × (4)
<b>Heavy goods vehicle (&gt; 12 ton)</b>					
15,000	1	1	1,000	15	15,000
15,000	4	12	1,000	15	7,20,000
<b>Other than heavy goods vehicle</b>					
12,000	1	3	7,500	-	22,500
12,000	4	12	7,500	-	3,60,000
10,000	2	4	7,500	-	60,000
					<b>11,77,500</b>

*Computation of income as per books*

Particulars	Rs.
Freight charges	15,00,000
Less: Operational expenses	(6,00,000)
Less: Depreciation	(2,50,000)
<b>Business income</b>	<b>6,50,000</b>

Since her income from such business computed as per books is lower than presumptive income u/s 44AE, she can claim the lower income of Rs. 6,50,000 if she complies with sections 44AA and 44AB for the PY 2022-23.

**B193. S. 44AE – CA2019(NOV)** - Prakash is in the business of operating goods vehicles. As on 1.4.2022, he had the following vehicles.

Vehicle	Gross vehicle weight (Kg)	Date of purchase	Put to use during FY 2022-23
A	8,500	2.4.2021	Yes
B	13,000	15.5.2021	Yes
C	12,000	4.8.2021	No (under repairs)

During PY 2022-23, he purchased the following vehicles:

Vehicle	Gross vehicle weight (Kg)	Date of purchase	Put to use during FY 2022-23
D	11,000	30.4.2022	10.5.2022
E	15,000	15.5.2022	18.5.2022

Compute his income u/s 44AE for AY 2023-24.

■ Benefit of section 44AE is available since Prakash is engaged in the business of plying, hiring and leasing goods carriages and does not own more than 10 goods carriages at any time during PY 2022-23.



## Computation of presumptive income as per section 44AE

Type of carriage	No. of months (or part of month) vehicle is owned during PY	Rate p.m. (per ton p.m. for HGV)	Ton	Amount
(1)	(2)	(3)	(4)	(5) = (2) × (3) × (4)
<b>Heavy goods vehicle (&gt; 12 ton)</b>				
Vehicle B	12	1,000	13	1,56,000
Vehicle E	11	1,000	15	1,65,000
<b>Other than heavy goods vehicle</b>				
Vehicle A	12	7,500	-	90,000
Vehicle C	12	7,500	-	90,000
Vehicle D	12	7,500	-	90,000
<b>Total</b>				<b>5,91,000</b>

Mistake by students – Date of owning is relevant and not the date of put to use.

**COMPREHENSIVE**

**B194. COMPREHENSIVE - CA2015(NOV)** - State with reasons, the allowability of following expenses incurred by MN Ltd, a wholesale dealer of commodities, under the Income Tax Act, while computing profits and gains of business or profession for AY 2023-24.

#	Expense
1	Construction of school building in compliance with CSR activities amounting to Rs. 5,60,000
2	Purchase of building for setting up a warehousing facility for storage of food grains amounting to Rs. 4,50,000
3	Interest on loan paid to Mr. X (a resident) of Rs. 50,000 on which tax has not been deducted.
4	Commodities transaction tax paid Rs. 20,000 on sale of bullion.

#	Allowability
1	CSR expenditure u/s 135 of the Companies Act is not allowable as per Explan 2 to S. 37(1).
2	Eligible for investment linked tax deduction u/s 35AD @ 100% of such amount if the relevant conditions of that section are satisfied.
3	TDS is to be deducted u/s 194A (para 213 of Concepts Book). Rs. 15,000 (30% of Rs. 50,000) will be disallowed u/s 40(a)(ia) assuming that Mr. X has also not paid the tax, if any, on such interest. Balance will be allowed u/s 36(1)(iii) assuming that amount was borrowed for purposes of business.
4	Allowable as deduction u/s 36(1)(xvi) assuming that income from commodity transactions is included in computing business income.

**B195. COMPREHENSIVE - CA2011(NOV)** – Ramji Ltd., engaged in manufacture of medicines, furnishes the following information for the year ended 31.3.2023. State with reasons the taxability or deductibility of these items. Computation of total income is not required.

#	Item
1	Municipal tax relating to office building Rs. 51,000 not paid till due date of filing return for AY 2023-24
2	Patent acquired for Rs. 20 lakh on 1.9.2022 and used from the same month
3	Capital expenditure on scientific research of Rs. 10 lakh which includes cost of land of Rs. 2 lakh
4	Amount due from customer X outstanding for more than 3 years written off as bad debt in the books – Rs. 5 lakh
5	Income tax paid Rs. 90,000 by the company in respect of non-monetary perquisites provided to its employees
6	PF contribution of employees of Rs. 5,50,000 remitted in July 2022.
7	Expenditure towards advertisement in souvenir of a political party – Rs. 1,50,000
8	Refund of GST Rs. 75,000 received during the year which was claimed as expenditure in an earlier year.

#	Allowability
1	Disallowed u/s 43B since tax is paid after the due date of furnishing return for the PY.
2	Depreciation @ 25% to be allowed u/s 32 since it is put to use for ≥ 180 days during the PY.
3	Rs. 8 lakh to be deducted u/s 35(1)(iv). No deduction allowable for land.
4	Deductible as bad debt u/s 36(1)(vii) since amount has been taken into account in computing income and is now written as irrecoverable in the books of account.
5	Disallowed u/s 40(a)(v). It is, however, exempt in the hands of employees u/s 10(10CC).

6	Included in income u/s 2(24)(x). But disallowed u/s 36(1)(va), assuming that the contribution is not credited to the account of employees in the fund by the due date as per the rules of the fund.
7	Disallowed u/s 37(2B)
8	Amount is recovered against expenditure earlier allowed as deduction. Taxable u/s 41(1)

**B196. COMPREHENSIVE** - Madhav is a sole proprietor of Hari Silks. He reports turnover of Rs. 240 lakh for PY 2022-23 and a net profit of Rs. 8,10,000 as per books of account. The following items are debited and credited to P&L A/c:

- Bonus to employees of Rs. 60,000. Provision made on 31.3.2023 and paid on 30.11.2023 after the due date of filing return.
- Interest on private loan Rs. 12,000 was paid by a/c payee crossed cheque on 10.8.2022. No tax was deducted at source. Turnover of Madhav for PY 2021-22 exceeded Rs. 200 lakh.<sup>2</sup>
- Dividend from Indian companies (listed in recognized stock exchange) received during the year Rs. 21,000.
- PPF interest credited Rs. 27,000 and savings bank interest Rs. 13,500 from UCO Bank.
- One generator was purchased for Rs. 90,000 on 10.1.2023. Subsidy received from Government @ 20%. The subsidy is credited to P&L A/c. No depreciation is charged in the books for generator.
- Rent received from let out property Rs. 1,65,000 credited to P&L A/c. Municipal tax of said property Rs. 15,000 was paid on 10.3.2023 which is debited to P&L A/c.
- Salary paid to wife Rs. 30,000 per month during the year 2022-23. Reasonable monthly salary considering her qualification and experience is Rs. 20,000 per month.

Compute the income from business of Madhav taking note of the above adjustments. Brief reason is to be given for treatment of each item given above.

■  
Computation of business income of Madhav for AY 2023-24

Particulars	Rs.	Rs.
Net profit as per profit and loss account		8,10,000
Add: Expenses debited but not deductible:		
• Bonus paid after due date of filing return: Disallowed u/s 43B	60,000	
• Interest paid without TDS: TDS is deductible u/s 194A as turnover for preceding year is > 1 crore (see para 213 of Concepts Book). 30% is disallowed u/s 40(a)(ia).	3,600	
• Municipal taxes for property: Considered while computing income from IHP	15,000	
• Salary to wife: Excess disallowed u/s 40A(2) @ 10,000 p.m.	1,20,000	
		1,98,600
Less: Incomes credited but not taxable under the head PGBP:		
• Dividend: Taxable under the head IFOS	21,000	
• PPF interest: Not covered under the head PGBP (it is exempt u/s 10 (see para 176 of Concepts Book))	27,000	
• Saving bank interest: Taxable under the head IFOS	13,500	
• Rent from property: Taxable under the head IHP	1,65,000	
		(2,26,500)
Less: Subsidy for generator: It is adjusted from actual cost for purpose of depreciation		(18,000)
Less: Depreciation on generator @ 50% of 15% of 72,000 (90,000 purchase price – 18,000 subsidy) as it is put to use for < 180 days. Additional depreciation is not eligible assuming Madhav is not engaged in manufacture or production.		(5,400)
<b>Income from business</b>		<b>7,58,700</b>

**B197. COMPREHENSIVE** - Bhushan, engaged in manufacture of chemicals, furnishes his Manufacturing, Trading and Profit & Loss Account for the year ended 31.3.2023 as under:

Particulars	Rs.	Particulars	Rs.
To Opening stock	3,40,000	By Sales	1,14,00,000
To Purchases	1,00,20,000	By Closing stock	19,00,000
To Manufacturing expenses	10,40,000		
To Gross profit	19,00,000		
	1,33,00,000		1,33,00,000
To Salary	4,30,000	By Gross profit	19,00,000

<sup>2</sup> Hint – TDS is deductible u/s 194A – Refer para 213 of Concepts Book for details.

To Bonus	80,000	By Discount	25,000
To Bank term loan interest	90,000	By Agricultural income	1,50,000
To Factory rent	1,20,000	By Dividend	75,000
To Office rent	2,10,000		
To Administration expenses	3,30,000		
To Net profit	8,90,000		
	<b>21,50,000</b>		<b>21,50,000</b>

**Additional information:**

- Total turnover of Bhushan for FY 2021-22 was Rs. 132 lakh.
- Salary includes Rs. 1,80,000 paid to his daughter. The excess payment considering her qualification and experience is ascertained as Rs. 40,000.
- Factory rent was paid to his brother. Similar portions are let out to others by him for a rent of Rs. 96,000 p.a.
- No tax was deducted at source from office rent paid during the year.<sup>3</sup>
- Purchases include Rs. 70,000 paid by cash to an agriculturist for purchase of grains (being raw material).
- Depreciation allowable u/s 32 amounts to Rs. 45,000 for assets held as on 1.4.2022. During the year, a machinery costing Rs. 5,00,000 was acquired on 1.7.2022 and was put to use from 15.10.2022.
- Administration expenses include commission paid to a purchase agent of Rs. 12,000 for which no tax was deducted at source.<sup>4</sup>
- Following expenses debited above were not paid till 31.3.2023 and up to the date of filing return of income:
  - Term loan interest of Rs. 35,000;
  - Demurrages to Indian Railways for using their clearing yard beyond stipulated hours (disputed by the assessee) forming part of manufacturing expenses Rs. 30,000.

Compute the income of Bhushan chargeable under the head 'Profits and gains of business or profession' for AY 2023-24.

**Computation of income chargeable under the head PGBP of Bhushan for AY 2023-24**

Particulars	Rs.	Rs.
Net profit as per Manufacturing, Trading and Profit and Loss account		8,90,000
Add: Expenses debited but not deductible:		
• Salary to daughter: Excess disallowed u/s 40A(2)	40,000	
• Factory rent to brother: Excess disallowed u/s 40A(2) = 1,20,000 – 96,000	24,000	
• Office rent paid without TDS: Since turnover for preceding FY is > 1 crore, Bhushan is liable to deduct TDS u/s 194-I, assuming payee is a resident (see para 217 of Concepts Book). Hence, 30% of 2,10,000 is disallowed u/s 40(a)(ia).	63,000	
• Cash payment to agriculturist for purchase of grains (raw material): Not disallowed u/s 40A(3) as it is covered by Rule 6DD as an exception.	-	
• Commission paid to purchase agent without TDS: Since turnover for preceding FY is > 1 crore, Bhushan is covered under TDS provisions of 194H on commission. However, no TDS is to be deducted u/s 194H since amount is ≤ 15,000, being the threshold limit u/s 194H [see para 215 of Concepts Book]. Hence, no disallowance u/s 40(a)(ia).	-	
• Term loan interest not paid till due date of filing return: Disallowed u/s 43B assuming it is taken from an entity specified u/s 43B (bank, etc.)	35,000	
• Demurrages to Indian Railways not paid till due date of filing return: Disallowed u/s 43B	30,000	
		1,92,000
Less: Incomes credited but not taxable under PGBP or taxable under other heads:		
• Agricultural income: Exempt u/s 10(1)	1,50,000	
• Dividend: Taxable under the head IFOS	75,000	
		(2,25,000)
Less: Depreciation:		
• For assets held on 1.4.2022 (assuming these are held on 31.3.2023 as well)	45,000	

<sup>3</sup> Hint – TDS is deductible u/s 194-I – Refer para 217 of Concepts Book for details.

<sup>4</sup> Hint – TDS is not deductible u/s 194H – Refer para 215 of Concepts Book for details.

• For machinery purchased = Normal depreciation of 37,500 being 50% of 15% of 5,00,000 + Additional depreciation of 50,000, being 50% of 20% of 5,00,000. 50% depreciation is to be allowed as machinery is put to use for < 180 days.	87,500	
		(1,32,500)
<b>Profits and gains of business or profession</b>		<b>7,24,500</b>

**B198. COMPREHENSIVE** - Gopinath carries on business of retail trade in electronic items. Following is the Trading and Profit & Loss A/c for the year ended 31.3.2023:

Particulars	Rs.	Particulars	Rs.
To Opening stock	5,00,000	By Sales	1,25,00,000
To Purchases	75,00,000	By Closing stock	10,00,000
To Gross profit	55,00,000		
	1,35,00,000		1,35,00,000
To Depreciation	5,50,000	By Gross Profit	55,00,000
To Salary to employees	6,30,000	By Dividend	40,000
To Administrative expenses	1,50,000	By Interest on saving bank account	20,000
To Taxes	1,10,000	By Rent from house property	2,40,000
To Penalties	30,000		
To Interest	60,000		
To Deposit in PPF account	1,50,000		
To Rent of office	1,20,000		
To Miscellaneous expenses	20,000		
To Net profit	39,80,000		
	<b>58,00,000</b>		<b>58,00,000</b>

Additional information:

- Due date to file return of income u/s 139(1) is 31.10.2023.
- Rs. 20,000 is omitted to be included in opening stock and Rs. 15,000 is omitted to be included in closing stock.
- Depreciation is for furniture & fittings (WDV of block as on 1.4.2022 Rs. 3,00,000) and machinery (WDV of block as on 1.4.2022 Rs. 20,00,000; 15% depreciation rate). A machine was sold for Rs. 5,00,000 on 20.4.2022 while computers were purchased on 20.10.2022 for Rs. 2,50,000, along with software, UPS and routers and put to use on same day.
- TDS on salary of Rs. 1,50,000 paid in the month of March 2023 was deducted during March 2023 but deposited on 5.11.2023.
- Gopinath's contribution to recognized provident fund of Rs. 30,000 deposited in the fund on 25.10.2023 and group health insurance premium paid for employees in cash of Rs. 15,000.
- Administrative expenses of Rs. 30,000 paid to BCD Pvt Ltd. for purchase of office supplies which can be purchased in the market for Rs. 20,000. His brother holds 18% equity shares in the company.
- Taxes include income-tax of Rs. 50,000 and GST of Rs. 30,000, both paid on 5.11.2023. It also includes STT of 20,000 paid for shares purchased as investments and municipal taxes of Rs. 10,000 paid for house property let out on rent.
- Penalty includes Rs. 20,000 levied for wrongful availment of ITC under the GST law. Balance penalty is levied for contravention of provisions of the Income Tax Act.
- Interest expenditure includes Rs. 30,000 paid on loan taken from bank to purchase stock-in-trade, Rs. 25,000 paid to friend for loan taken to repay trading debts and Rs. 5,000 paid to neighbor in respect of loan taken to purchase furniture for residence. Entire interest was paid on 15.11.2023.
- Rent of office includes Rs. 20,000 paid by crossed cheque on 15.3.2023 to the landlord.
- Miscellaneous expenses include payment of mediclaim premium for self and spouse of Rs. 10,000 and charges of Rs. 5,000 for advertising in pamphlet published by the local political party.

Compute the income under the head PGBP for AY 2023-24.

Computation of income under the head PGBP for Gopinath for AY 2023-24

Particulars	Rs.	Rs.
Net profit as per Trading and Profit & Loss account		39,80,000
<b>Add: Expenses debited but not deductible:</b>		
Deposit in PPF account: Personal expense; deduction can be claimed u/s 80C from gross total income	1,50,000	
Under valuation of closing stock	15,000	

Salary of 1,50,000 on which TDS deducted during PY but paid after due date to furnish return: 30% is disallowed u/s 40(a)(ia) assuming employees are residents	45,000	
Gopinath's contribution to recognized provident fund: Not disallowed u/s 43B as paid on or before due date to file return	-	
Group health insurance premium: Not deductible u/s 36(1)(ib) as paid in cash	15,000	
Payment to BCD Pvt. Ltd.: Company is not related party as brother holds < 20% equity shares. No disallowance u/s 40A(2).	-	
Rent of office paid by crossed cheque: Disallowed u/s 40A(3) as sum paid to a person in a day, otherwise than by a specified mode, is > 10,000.	20,000	
Depreciation debited (deducted separately)	5,50,000	
Income-tax: Disallowed u/s 40(a)(ii)	50,000	
GST: Disallowed u/s 43B as paid after due date to file return	30,000	
STT: Not deductible u/s 36(1)(xv) as shares are not stock-in-trade	20,000	
Municipal taxes for house: Considered while computing income under the head IHP for let out property	10,000	
Penalty for contravention of GST law: Not deductible u/s 37(1) as it is not compensatory in nature but penal in nature	20,000	
Penalty for contravention of Income Tax law: Disallowed u/s 40(a)(ii)	10,000	
Interest on business loan taken from bank: Disallowed u/s 43B as paid after due date to file return	30,000	
Interest on business loan taken from friend: Allowed as 43B is not applicable	-	
Interest on personal loan taken from neighbor: Not allowed as it is personal expenditure	5,000	
Mediclaime premium for self and spouse: Not allowed as it is personal expenditure; deduction can be claimed u/s 80D from gross total income	10,000	
Advertisement in pamphlet of political party: Disallowed u/s 37(2B)	5,000	
		9,85,000
<b>Less: Incomes credited but not taxable or taxable under other heads of income:</b>		
Dividend: Taxable under the head IFOS	40,000	
Interest on saving bank account: Taxable under the head IFOS	20,000	
Rent from house property: Taxable under the head IHP	2,40,000	
Under valuation of opening stock	20,000	
		(3,20,000)
<b>Less: Depreciation:</b>		
F&F Block = 10% of 3,00,000	30,000	
P&M Block 15% (machinery) = 15% of 15,00,000 (opening WDV 20,00,000 – moneys payable on sale 5,00,000)	2,25,000	
P&M Block 40% (computers) = 50% of 40% of 2,50,000 as put to use for < 180 days	50,000	
Additional depreciation is not allowed as Gopinath is not engaged in manufacture or production	-	
		(3,05,000)
<b>Profits and gains of business or profession</b>		<b>43,40,000</b>

**B199. COMPREHENSIVE** - Pankaj, a resident, is engaged in the business of manufacturing food products in Delhi. Following is the Manufacturing, Trading and Profit and Loss Account for the year ended 31.3.2023.

*Manufacturing, Trading and Profit and Loss Account for the year ended 31.3.2023*

Particulars	Rs.	Particulars	Rs.
To Opening stock	50,00,000	By Sales	1,50,00,000
To Purchase of raw material	75,00,000	By Closing stock	20,00,000
To Manufacturing wages & expenses	10,00,000		
To Gross profit	35,00,000		
	1,70,00,000		1,70,00,000
To Salary	20,00,000	By Gross profit b/d	35,00,000
To Depreciation	4,23,500	By Share of profit from firm	6,00,000
To Patent and know-how	4,50,000	By Remuneration from firm	3,00,000
To Interest	1,00,000	By Winning from lottery	1,00,000
To Repair and maintenance	2,50,000	By Sale of machinery	2,00,000

To Taxes	1,00,000	By Sundry receipts	3,80,000
To Insurance	1,40,000		
To Administrative expenses	5,00,000		
To Miscellaneous expenses	6,00,000		
To Provisions	4,00,000		
To Net Profit	1,16,500		
	<b>50,80,000</b>		<b>50,80,000</b>

Following further information is available:

- Wages to a workman of Rs. 5,000 per month missed to be recorded in books for four months due to an inadvertent error.
- Salary includes commission paid to employees on 7.11.2023 @ 1% of total turnover achieved for the PY 2022-23.
- Rs. 3,00,000 was received from BKG Ltd. for not carrying out manufacturing of a specific product for a period of one year. This is not credited to P&L A/c.
- Insurance premium includes Rs. 15,000 paid for Keyman insurance premium on the life of chief technical officer. It also includes Rs. 75,000 employee group health insurance premium (20% paid by cash).
- Taxes include municipal taxes for factory premises Rs. 12,000 pertaining to PY 2021-22 paid on 15.3.2023 and Rs. 15,000 pertaining to PY 2022-23 paid on 5.11.2023.
- Depreciation has been computed as under:

Particulars	Rs.
Land @ 10% of Rs. 20,00,000 (WDV on 1.4.2022)	2,00,000
Machinery @ 15% of Rs. 10,00,000 (WDV on 1.4.2022)	1,50,000
Computers @ 15% of Rs. 4,90,000 (Rs. 4,50,000 WDV on 1.4.2022 + Rs. 50,000 purchased on 12.11.2022 – Rs. 10,000 sold on 20.5.2022)	73,500
	<b>4,23,500</b>

- Payment for purchase of computers was made in cash to the dealer on 12.11.2022 to the extent of Rs. 20,000. Balance was paid by NEFT. Computers were installed in office.
- Patent was acquired for 2,00,000 on 14.6.2022 and know-how was acquired for Rs. 2,50,000 on 20.12.2022.
- Interest includes Rs. 20,000 payable for FY 2022-23 on loan taken on 10.6.2021 from SBI for purchase of machinery. The machinery was first put to use on 25.6.2021. Interest was paid on 5.12.2023.
- Rs. 25,000 was paid to a transporter on 25.9.2022 by cash for hiring goods carriage for transportation of material.
- Miscellaneous expenses include salary of Rs. 3,00,000 to a technician engaged in scientific research related to the products manufactured by Pankaj, Rs. 50,000 cost of material purchased for scientific research and Rs. 1,50,000 cost of equipment used in such research. Rs. 25,000 was paid to IIT for being used in scientific research under a program that was approved after such payment and this amount is also debited as miscellaneous expenses.
- Provisions comprise provision of Rs. 2,90,000 for payment to approved gratuity fund and provision of Rs. 1,10,000 for bad and doubtful debts. Rs. 1,50,000 was paid into the gratuity fund on 20.10.2023 and the balance was paid on 20.11.2023.
- Remuneration from firm was allowed as deduction in the hands of the firm to the extent of Rs. 2,20,000.
- Sundry receipts include Rs. 60,000 income-tax refund pursuant to a favorable appeal order and Rs. 1,00,000 received as insurance compensation for loss of raw material destroyed by fire during PY 2021-22.

Compute the business income of Pankaj for AY 2023-24. Due date to file return of income u/s 139(1) is 31.10.2023.

Computation of income under the head PGBP for Pankaj for AY 2023-24

Particulars	Rs.	Rs.
Net profit as per Trading and Profit & Loss account		1,16,500
<b>Add: Expenses debited but not deductible:</b>		
Commission to employees @ 1% of 1.5 crore: Deductible u/s 36(1)(ii) but disallowed u/s 43B as paid after due date to furnish return	1,50,000	
Health insurance premium: Cash payment not allowed u/s 36(1)(ib): 20% of 75,000	15,000	
Keyman insurance premium: Allowed u/s 37(1). No adjustment as already debited.	-	
Municipal taxes of PY 2021-22: Allowed in PY 2022-23 in terms of section 43B since paid after due date to furnish return of PY 2021-22. No adjustment as already debited.	-	
Municipal taxes of PY 2022-23: Disallowed u/s 43B as paid after due date to furnish return	15,000	
Depreciation: Computed separately	4,23,500	
Patent and know-how: Depreciation computed separately	4,50,000	

Interest on bank loan: Deductible u/s 36(1)(iii) for period after machinery is first put to use but disallowed u/s 43B as paid after due date to furnish return	20,000	
Cash payment to transporter: Not disallowed u/s 40A(3) as payment to a person in a day by cash is ≤ 35,000. No adjustment as already debited.	-	
Salary, material and equipment for scientific research related to business: Allowed in full u/s 35(1)(i) for revenue expenditure and u/s 35(1)(iv) for capital expenditure. No adjustment as already debited.	-	
Donation to IIT for scientific research: Not allowed u/s 35(2AA) since program approved after payment	25,000	
Provision for payment to approved gratuity fund: Allowable u/s 40A(7) but disallowed u/s 43B to the extent paid after due date of return	1,40,000	
Provision for bad and doubtful debts: Not allowed u/s 36(1)(vii)	1,10,000	
		13,48,500
<b>Add: Incomes taxable but not credited:</b>		
Non-compete fee received from BKG Ltd.: Taxable u/s 28(va)		3,00,000
<b>Less: Expenses not debited but deductible:</b>		
Wages not recorded for 4 months @ 5,000 p.m.		(20,000)
<b>Less: Incomes credited but not taxable or taxable under other heads of income:</b>		
Share of profit from firm: Exempt u/s 10(2A)	6,00,000	
Remuneration from firm: Not taxable to the extent disallowed for firm	80,000	
Winning from lottery: Taxable under the head IFOS	1,00,000	
Sale of machinery: Capital receipt; considered while computing depreciation	2,00,000	
Income-tax refund: Not taxable	60,000	
Insurance compensation for loss of raw material: Taxable u/s 41(1) assuming loss was deducted in PY 2021-22. No adjustment as already credited.	-	
		(10,40,000)
<b>Less: Depreciation:</b>		
Land: Depreciation not allowed	-	
Machinery: WDV for depreciation = 10,00,000 WDV on 1.4.2022 – 2,00,000 sale of machinery = 8,00,000. // Depreciation = 15% of 8,00,000. Assumed that machinery is entitled to 15% rate of depreciation and machinery sold forms part of this block. // Interest on SBI loan is not added to actual cost since machinery is already first put to use in PY 2021-22.	1,20,000	
Computers: WDV for depreciation = 4,50,000 WDV on 1.4.2022 + 30,000 purchased (20,000 cash payment is not part of actual cost as payment to a person in a day is > 10,000) – 10,000 sold = 4,70,000. // Depreciation = 50% of 40% of 30,000 (as put to use for < 180 days) + 40% of remaining 4,40,000.	1,82,000	
Patent and know-how = 50% of 25% of 2,50,000 (as put to use for < 180 days) + 25% of 2,00,000	81,250	
Additional depreciation: Not allowed on computers as installed in office; not allowed on patent and know-how.	-	
		(3,83,250)
<b>Profits and gains of business or profession</b>		<b>3,21,750</b>

**B200. COMPREHENSIVE - CA2012(NOV)** - Following is the profit and loss account of Mr. Q for the year ended 31.3.2023.

Particulars	Rs.	Particulars	Rs.
To Repairs on building	1,81,000	By Gross profit	6,01,000
To Amount paid to IIT, Mumbai for an approved scientific research programme	1,00,000	By I.T. Refund	8,100
To Interest	1,10,000	By Interest on company deposits	6,400
To Travelling	1,30,550		
To Net profit	93,950		
	<b>6,15,500</b>		<b>6,15,500</b>

Following additional information is furnished:

(1) Repairs on building includes Rs, 1,00,000 being cost of laying a toilet roof.

(2) Interest payments include Rs. 50,000 on which TDS has not been deducted and penalty for contravention of GST Act of Rs. 24,000.

Compute the income chargeable under the head PGBP for AY 2023-24 ignoring depreciation.

■  
Computation of income under the head PGBP of Mr. Q for the AY 2023-24

Particulars	Rs.	Rs.
Net profit as per profit and loss account		93,950
<b>Add: Expenses not allowable</b>		
Expenses on laying a toilet roof – Capital expenditure – Not allowed u/s 37(1), depreciation allowed but it is ignored as per the question.	1,00,000	
Interest payable on which tax not deducted at source – Disallowed u/s 40(a)(ia) @ 30% assuming payment is made to a resident	15,000	
Penalty for contravention of GST Act – Not allowed u/s 37(1), since it is penal and not compensatory	24,000	1,39,000
<b>Less: Incomes not taxable or not forming part of PGBP</b>		
Interest on company deposits – Taxable under the head IFOS <sup>5</sup>	6,400	
Income-tax refund (not taxable)	8,100	(14,500)
<b>Profits and gains of business and profession</b>		<b>2,18,450</b>

**B201. COMPREHENSIVE - MASTER QUESTION** – Sunil, a resident, is a manufacturer of electronic equipment and follows mercantile system of accounting. He has shared the below Profit and Loss Account for the year ended 31.3.2023.

Profit and Loss Account for the year ended 31.3.2023

Particulars	Rs.	Particulars	Rs.
To Purchase of material	9,30,000	By Turnover	38,52,000
To Rent of factory building	1,20,000	By Compensation for modification of terms of a business contract	1,00,000
To Repairs	1,60,000	By Profit on sale of import license	30,000
To Insurance premium	60,000	By Sunil & Sushil, partnership firm	2,90,000
To Loss of stock by fire	1,00,000	By Sundry receipts	1,50,000
To Provision for contingent liability	50,000	By Dividend from companies	20,000
To Employee cost	9,00,000		
To Provision for gratuity	15,000		
To Depreciation	2,00,000		
To Interest	65,000		
To Scientific research	1,00,000		
To Legal expenses	60,000		
To Fees for technical services	1,50,000		
To Transport & conveyance	80,000		
To Sundry expenses	50,000		
To Advertisement & Publicity	90,000		
To Bad debt	30,000		
To Taxes	1,82,000		
To Transfer to reserve	1,00,000		
To Net Profit	10,00,000		
	<b>44,42,000</b>		<b>44,42,000</b>

Following further information is provided relating to FY 2022-23:

- Business was carried out in a factory building taken on rent and in an office owned by Sunil.
- PQR Ltd., a supplier of electronic parts, provided a car to Sunil for free use, in recognition of his business dealings with the company. Value of benefit is Rs. 60,000. This is not reflected in the books of accounts.
- Bank statement showed a credit of Rs. 5 lakh received from Z Pvt. Ltd. for not manufacturing certain products for a period of two years. This is not reflected in P&L A/c.

<sup>5</sup> This may also be treated as business income on the assumption that interest is earned out of temporary surplus funds meant for business, though not immediately required.



4. Sunil had taken a Keyman Insurance Policy on the life of his senior most employee. Rs. 10 lakh were received consequent to the death of the employee. This was not credited to P&L A/c.
5. Insurance premium debited to P&L A/c comprises of the following:
- Insurance of office – Rs. 10,000
  - Insurance of machinery – Rs. 15,000
  - Insurance of motor car – Rs. 10,000.
  - Keyman insurance premium – Rs. 5,000
  - Insurance of stock of goods – Rs. 5,000
  - Health insurance premium for employees – Rs. 15,000 (paid in cash)
6. Repairs include Rs. 1 lakh spent on adding a structure to the factory building which was put to use on 10.7.2022. Further, Rs. 15,000 towards current repairs of furniture and fixtures was paid to M/s Set Right Pvt. Ltd. in cash in two equal instalments on 10.6.2022 and 11.6.2022.
7. Employee cost, debited to P&L A/c, includes the following:
- Employee's contribution to recognized provident fund of Rs. 30,000. Sunil failed to credit Rs. 10,000 to the employee's accounts of the fund within the due date prescribed by the rules of the fund.
  - Sunil's contribution to recognized provident fund of Rs. 30,000. Rs. 25,000 was paid till 31.3.2023 and the balance was paid only on 10.1.2024.
  - Sunil's contribution to NPS account of employee @ 15% of salary – Rs. 24,000.
  - Bonus for PY 2022-23 of Rs. 1 lakh, not paid till end of calendar year 2023.
  - Salary of Rs. 3 lakh paid without deduction of tax at source u/s 192. Tax was, however, deducted and paid on 25.4.2023.
8. Taxes, debited to P&L A/c, comprises of the following:
- Municipal taxes of Rs. 10,000 for factory building. Paid on 1.5.2023.
  - Local taxes of Rs. 5,000 for office – Paid on 1.12.2023.
  - Securities Transaction Tax of Rs. 5,000 paid on transactions in equity shares held as investment.
  - Income tax of PY 2021-22 of Rs. 75,000 paid along with interest of Rs. 5,000.
  - GST of Rs. 40,000. Rs. 10,000 paid on 20.11.2023.
  - Penalty of Rs. 30,000 under CGST Act for availing exemption not permissible. Out of this, Rs. 10,000 was to compensate for GST and the rest as penalty for violation of GST law.
  - Tax on non-monetary perquisites paid on behalf of employees – Rs. 10,000.
  - Profession tax paid by Sunil to the State Government – Rs. 2,000.
9. Following information was provided in respect of fixed assets:

Particulars	Office	Plant & Machinery	Furniture	License
Tax WDV as on 1.4.2022	20,00,000	3,00,000	2,00,000	-
Purchases	-	Second hand motor car for Rs. 2,00,000 (inclusive of GST) on 31.12.2022 (payment by bank ECS) New machine for Rs. 2,92,000 on 31.10.2022 (payment by A/c payee cheque)	30,000 on 1.5.2022 (lump sum payment made on this date; 50% paid in cash and rest by A/c payee cheque)	1,00,000 on 1.6.2022 (paid by IMPS)
Sale	-	75,000 on 1.2.2023	10,000 on 1.7.2022 (in cash)	-

- Sunil had purchased a machine for Rs. 1 lakh on 1.3.2022 which became ready to be used on 15.3.2022. It was installed in office.
- Sunil had constructed his office on a plot of land which he had purchased 5 years back for Rs. 10 lakh.
- Freight and installation charges were paid for furniture purchased during the year: Rs. 10,000 paid in cash on 1.5.2022. These were omitted to be recorded in the books.
- Out of GST paid on acquisition of motor car, Rs. 20,000 was allowed as input tax credit.
- A computer was gifted by his friend on 15.6.2022. It was acquired by his friend on 1.5.2021 for Rs. 50,000. It was used by Sunil in his business in office as well as for personal purposes. Personal use is estimated at 20%. Market value of computer on 15.6.2022 was Rs. 10,000.
- A machine was purchased from USA on 20.4.2021 for USD 1,500. 25% of purchase price was payable on purchase and the rest after a period of one year. Exchange rate of INR to USD was Rs. 75 on 20.4.2021, Rs. 76 on 31.3.2022 and Rs. 72 on 20.4.2022.

- Interest of Rs. 28,000 was payable on loan taken from HDFC Bank to purchase the new machinery on 31.10.2022 (as referred in the Table above). Machinery was first put to use on this date. Interest of Rs. 8,000 pertains to the period till 31.10.2022 and balance interest pertains to period thereafter for the rest of the PY 2022-23.

10. Expenditure on scientific research comprises:

- Rs. 30,000 paid on 20.6.2022 to JBL college for scientific research. The college is yet to be notified u/s 35.
- Rs. 20,000 donated to National Laboratory on 30.10.2022 for use in scientific research under an approved program. The program was subsequently withdrawn on 1.3.2023.
- Rs. 20,000 spent on purchase of equipment and Rs. 30,000 on salary of an engineer for doing scientific research for improving quality of products manufactured by Sunil. Equipment was purchased on 1.2.2023. This expenditure is not certified by any authority.
- Expenditure of Rs. 2 lakh was spent within the period of 3 years before commencement of the current business on 15.5.2020 in respect of salary to employees, purchase of material and purchase of equipment connected with scientific research pertaining to this business. This is not debited to P&L A/c for the PY 2022-23.

11. Interest comprises of the following:

- Interest of Rs. 28,000 on loan taken from HDFC (details under section on depreciation – see #9 above).
- Interest of Rs. 22,000 on loan taken from SBI to purchase raw material. 50% paid on 5.7.2023 and rest on 15.11.2023.
- Interest of Rs. 10,000 on loan taken from friend at 20% p.a. Interest was paid on 10.12.2023 by way of a bearer cheque. Market rate of interest for similar loan is 15%.
- Interest of Rs. 5,000 on outstanding trade payables. Interest remains unpaid.

12. Bad debt of Rs. 30,000 debited to P&L A/c comprises of:

- Trade recoverable of Rs. 15,000 written off as irrecoverable in the books.
- Loan of Rs. 10,000 given to a friend but written off as irrecoverable.
- Provision for bad debts of Rs. 5,000.

13. Legal expenses are towards payment to lawyer for defending a civil suit filed against his brother for cheating (Rs. 40,000) and to Chartered Accountant for filing a tax appeal before the CIT (Appeals) in relation to the business (Rs. 20,000).

14. Sundry expenses include the following:

- Damages paid by Sunil to a customer on account of supply of defective products – Rs. 10,000.
- Office celebration expenses on Diwali and New year – Rs. 8,000.
- Bribe paid to waive off penalty for contravening local regulations applicable to business premises – Rs. 5,000.
- Office expenses of Rs. 15,000 pertaining to PY 2021-22 which got omitted to be recorded in that year.

15. Advertisement expenses include Rs. 15,000 for advertisement in a brochure published by the Hindustan Janta Party, a political party. This amount was paid by account payee cheque on 20.1.2023.

16. Transport & conveyance expenses include Rs. 25,000 paid to Swift Pvt. Ltd. by a bearer cheque on 12.3.2023, a transport company, for transport of goods to the factory.

17. Fees for technical service was paid to JKL Pvt. Ltd. in which Manav, the brother of Sunil, held 20% equity shares. Market rate for similar services was found to be Rs. 1 lakh. Tax was not deducted at source.

18. Rs. 2,20,000 was received as salary and Rs. 20,000 was received as interest on capital @ 15% simple interest p.a. from Sunil & Sushil, a partnership firm, in which Sunil and Sushil are working partners. Book profit of the firm for PY 2022-23 is Rs. 5 lakh. Sunil also received Rs. 50,000 as share of profits of the firm. Sunil and Sushil were paid equal salary and share in profits.

19. Sundry receipts include the following amounts:

- Rs. 20,000 ultimately received in respect of trade receivables of Rs. 50,000, allowed as deduction for bad debts three years back, in respect of mobile retail business discontinued in PY 2021-22.
- Interest of Rs. 20,000 on fixed deposits in bank made out of personal funds.
- Medical insurance claim of Rs. 50,000 received from insurer in respect of hospitalization of his wife.
- Refund of excise duty of Rs. 10,000 allowed as deduction for PY 2019-20.
- Receipt of Rs. 50,000 from sale debtors pertaining to the aforesaid mobile retail business.

20. Rs. 20,000 payable to Sure Ltd. for supply of raw material was waived off on 18.9.2022 on account of supply of defective material. The total invoice amount of Rs. 50,000 was allowed deduction for PY 2020-21.

21. Before commencement of his existing business on 15.5.2020, Sunil had incurred expenditure of Rs. 1 lakh on market survey conducted by Z Pvt. Ltd. (approved for this purpose), Rs. 1.5 lakh on engineering services by JK Pvt. Ltd. (unapproved for this purpose) and Rs. 50,000 on preparation of project report by self. Actual cost of land, building, plant, machinery, furniture and fittings as per books as on 1.4.2020 and 31.3.2021 was Rs. 20 lakh and Rs. 25 lakh, respectively.

22. Sunil had framed a scheme of voluntary retirement for its employees during PY 2020-21 pursuant to which payment of Rs. 15 lakh was made in that year.

23. Turnover of the business for PY's 2019-20, 2020-21 and 2021-22 was Rs. 20 lakh, Rs. 30 lakh and Rs. 28 lakh, respectively.

24. Due date to file return of income for PY 2022-23 is 31 October 2023.

Compute the income chargeable under the head 'PGBP' in the hands of Sunil for AY 2023-24. Also, advise whether Sunil is required to keep and maintain books of account as prescribed by Rule 6F and get audit of his accounts done u/s 44AB for AY 2023-24. Ignore presumptive income provisions.

■  
Computation of income under the head PGBP of Sunil for the AY 2023-24

Particulars	Rs.	Rs.
<b>Net profit as per profit and loss account</b>		10,00,000
<b>Add: Income taxable under the head PGBP but not credited:</b>		
Benefit of free car: Taxable u/s 28(iv) as benefit or perquisite arising from business	60,000	
Non-compete fee from Z Pvt. Ltd.: Taxable u/s 28(va)	5,00,000	
Sum received under Keyman insurance policy: Taxable u/s 28(vi)	10,00,000	
Amount payable to Sure Ltd., deducted in PY 2020-21 but waived off in PY 2022-23: Taxable u/s 41(1)	20,000	
		15,80,000
<b>Add: Expenses debited but disallowed:</b>		
Rent of factory building: Allowed u/s 30	-	
Loss of stock by fire: Allowed u/s 29 in view of general principles	-	
Provision for contingent liability: Not allowed u/s 37(1) as expenditure is not incurred	50,000	
Provision for gratuity (assuming it is not for payment to approved gratuity fund or for payment of gratuity payable during PY): Disallowed u/s 40A(7)	15,000	
Depreciation (considered separately)	2,00,000	
Transfer to reserve – Not allowed u/s 37(1)	1,00,000	
Insurance premium:		
• Office building – Allowed u/s 30.	-	
• Machinery and motor car – Allowed u/s 31.	-	
• Keyman insurance – Allowed u/s 37(1).	-	
• Stock of goods – Allowed u/s 36(1)(i).	-	
• Health insurance premium for employees – Not allowed u/s 36(1)(ib) since paid in cash	15,000	
Repairs:		
• Structural addition to factory building taken on rent: Entitled to depreciation (considered separately) since Sunil is deemed to be the owner of structure as per Exln 1 to S. 32(1).	1,00,000	
• Current repairs of furniture and fixtures: Not disallowed u/s 40A(3) since payment made to a person in a day in cash of Rs. 7,500 does not exceed the limit of Rs. 10,000.	-	
Employee cost:		
• Employee's contribution not credited to RPF by the due date as per rules of the fund: Not allowed u/s 36(1)(va)	10,000	
• Employer's contribution to RPF paid beyond the due date of furnishing return: Disallowed u/s 43B	5,000	
• Employer's contribution to NPS in excess of 10% of salary: Not allowed u/s 36(1)(iva) = 5% / 15% × 24,000. Assuming salary does not include anything other than basic salary, DA (if forming part of salary for computing retirement benefits) and commission based on fixed percentage of turnover.	8,000	
• Bonus: Disallowed u/s 43B since not paid till due date of furnishing return	1,00,000	
• Salary paid without TDS: 30% of 3 lakh is disallowed u/s 40(a)(ia) since TDS is not deducted in PY 2022-23 (assuming payees are residents). Disallowance will be reversed in PY 2023-24, i.e., PY in which tax is paid.	90,000	
Taxes:		
• Municipal taxes for factory: Not disallowed u/s 43B since paid by the due date to furnish return.	-	
• Local taxes for office: Disallowed u/s 43B since paid after due date to furnish return.	5,000	
• Securities Transaction Tax: Not allowed u/s 36(1)(xv) since income from shares is not taxable under PGBP as shares are not held as stock-in-trade	5,000	
• Income tax: Tax as well as interest, disallowed u/s 40(a)(ii)	80,000	
• GST: Disallowed u/s 43B to the extent paid after due date to furnish return.	10,000	

• GST penalty: Not allowed u/s 37(1) to the extent it is not compensatory	20,000	
• Tax on non-monetary perquisites: Disallowed u/s 40(a)(v)	10,000	
• Professional tax paid: Allowed u/s 37(1).	-	
Scientific research expenditure:		
• Payment to JBL college for scientific research: Not allowed u/s 35(1)(ii) since not notified	30,000	
• Payment to National Laboratory: Allowed u/s 35(2AA) even if program withdrawn later	-	
• In-house expenditure on equipment and salary: Allowed u/s 35(1) even if not certified. Certification is required only for pre-commencement revenue expenditure.	-	
• Pre-commencement expenditure on scientific research: Expenditure incurred is eligible for deduction u/s 35, but in PY 2020-21 (i.e., year of commencement of business), not in the current PY. No impact since this is not debited to P&L	-	
Interest:		
• Interest on loan from HDFC bank to purchase machinery: Interest of 8,000 till 31.10.2022 is added to actual cost (see <b>Note 1</b> ) and interest thereafter of 20,000 is deductible u/s 36(1)(iii) (assuming it is paid by the due date to file return in terms of section 43B).	8,000	
• Interest on loan from SBI: Payment on 15.11.2023 is disallowed u/s 43B as it is made after due date to furnish return.	11,000	
• Interest on loan taken from friend: Not disallowed u/s 40A(2) (as friend is not a relative) or u/s 40A(3) (as payment by a non-specified mode to a person in a day is not > 10,000) or u/s 43B (as it is not covered by 43B).	-	
• Interest on outstanding trade payables: Allowed u/s 37(1). S. 43B does not apply.	-	
Bad debt:		
• Trade recoverable written off: Deductible u/s 36(1)(vii) as bad debt assuming debt has been taken into account in computing income.	-	
• Loan written off: Not deductible u/s 36(1)(vii) since debt has not been taken in computing income	10,000	
• Provision for bad debts: Not deductible u/s 36(1)(vii)	5,000	
Legal expenses:		
• To lawyer to defend civil suit against brother: Not allowed u/s 37(1) since not incurred for the purposes of business of Sunil	40,000	
• To Chartered Accountant for appeal filing: Allowed u/s 37(1).	-	
Sundry expenses:		
• Damages for breach of contract due to supply of defective products: Allowed u/s 37(1)	-	
• Office celebration expenses: Allowed u/s 37(1)	-	
• Bribe paid: Not allowed u/s 37(1) since it is an offence/prohibited by law	5,000	
• Office expenses pertaining to PY 2021-22: Not allowed u/s 37(1) since does not pertain to current PY	15,000	
Advertisement expenses in brochure published by political party: Disallowed u/s 37(2B)	15,000	
Transport expenses paid to Swift Ltd.: Not disallowed u/s 40A(3) since limit for plying, hiring or leasing goods carriage is Rs. 35,000 u/s 40A(3)	-	
Fees for technical services paid to JKL Pvt. Ltd.: Disallowed u/s 40A(2) in excess of market rate (1,50,000 – 1,00,000) as Manav (relative) holds substantial interest (≥ 20% equity shares) in the company. No disallowance u/s 40(a)(ia) for non-deduction of TDS since TDS is not deductible u/s 194J as Sunil's turnover for FY 2021-22 is ≤ 1 crore (refer para 216 of Concepts Book).	50,000	
		10,12,000
<b>Less: Expenses allowed but not debited</b>		
Depreciation u/s 32 ( <b>Note 1</b> )	3,65,344	
Amortization of preliminary expenses u/s 35D ( <b>Note 2</b> )	25,000	
Amortization of VRS expenses u/s 35DDA ( <b>Note 3</b> )	3,00,000	
		(6,90,344)
<b>Less: Income credited but not taxable or taxable under other heads of income</b>		
Compensation for modification of terms of business contract: Taxable u/s 28(ii)	-	
Profit on sale of import license: Taxable u/s 28(iia)	-	
Dividend from companies: Taxable under the head IFOS	20,000	

Payments from Sunil & Sushil, partnership firm:		
• Salary and interest: Exempt to the extent disallowed in the hands of the firm ( <b>Note 4</b> )		29,000
• Share of profit: Exempt u/s 10(2A)		50,000
Sundry receipts:		
• Amount recovered for bad debts deducted earlier: Taxable u/s 41(4) even if business does not exist = Excess of recovery of 20,000 over difference of Nil (i.e., Amount of debt 50,000 – deduction u/s 36(1)(vii) 50,000) = 20,000. Already credited to P&L.		-
• Interest on Bank FD: Taxable under the head IFOS		20,000
• Medical insurance claim: Not income		50,000
• Refund of excise duty allowed as deduction earlier: Taxable u/s 41(1). Already credited to P&L.		-
• Receipt from sale debtors after discontinuance of business: Not taxable again u/s 176 assuming that the sum would have been included in the income in the relevant PY when it accrued since Sunil follows mercantile system of accounting		50,000
		(2,19,000)
<b>Profits and gains of business or profession</b>		<b>26,82,656</b>

**Note:** For the sake of completeness, all the items referred to in the question have been given in the answer above whether or not any adjustment is required.

**Is Sunil required to keep and maintain books of account as prescribed by Rule 6F for PY 2022-23?** No, since Rule 6F makes prescription for a specified profession and not for a business. However, since turnover of business of Sunil has exceeded Rs. 25 lakh in one or more of the preceding 3 PYs, he is required to maintain such books and documents u/s 44AA as may enable the AO to compute his total income.

**Is Sunil required to get audit of his accounts done u/s 44AB for AY 2023-24?** No, since turnover for PY 2022-23 does not exceed Rs. 1 crore.

#### Notes:

##### 1: Computation of depreciation

Computation	Building (Block @ 10%)	P&M (Block @ 15%)	P&M (Block @ 40%)	Furniture (Block @ 10%)	License (Block @ 25%)
WDV as on 1.4.2022	20,00,000	3,00,000	-	2,00,000	-
Add: Actual cost of assets acquired during PY:					
• Second hand motor car (put to use for < 180 days): 2,00,000 – 20,000 ITC allowed		1,80,000			
• New machine (put to use for < 180 days). 2,92,000 + 8,000 interest on loan from HDFC bank to purchase machine for the period till it is first put to use		3,00,000			
• Furniture (put to use for ≥ 180 days): 30,000 – 15,000 paid in cash to a person in a day (as > 10,000) + 10,000 freight & installation paid in cash (not disallowed as not > 10,000 to a person in a day).				25,000	
• License (put to use for ≥ 180 days)					1,00,000
• Structure added to building taken on rent (put to use for ≥ 180 days): Sunil is deemed owner and entitled to depreciation	1,00,000				
• Computer gifted (put to use for ≥ 180 days) (refer (d) below)			30,000		
• Machine purchased from USA – Adjustment u/s 43A (refer (e) below)		(3,375)			
Less: Moneys payable for assets sold during PY		(75,000)		(10,000)	
WDV (as on 31.3.2023) for depreciation	21,00,000	7,01,625	30,000	2,15,000	1,00,000
Less: Normal depreciation:					
• Building block: 10% of 21,00,000	(2,10,000)				
• 15% P&M block: [50% of 15% of 4,80,000 (as put to use for < 180 days)] + [15% of remaining 2,21,625]		(69,244)			
• 40% P&M block: 80% of 40% of 30,000. 20% disallowed for			(9,600)		

personal use.				
• 10% F&F block: 10% of 2,15,000				(21,500)
• 25% intangibles: 25% of 1,00,000				(25,000)
Less: Additional depreciation @ 50% of 20% of actual cost of new machinery of Rs. 3,00,000 (as put to use for < 180 days) (refer (f) below)		(30,000)		
<b>Total depreciation = Rs. 3,65,344</b>				

- a) Since rate of depreciation for plant and machinery is not specified in the question, 15% general rate of depreciation is assumed for plant and machinery (except computer which is entitled to 40% rate).
- b) Machine purchased on 1.3.2022: 50% depreciation limit for put to use for < 180 days is only applicable in the year of acquisition. Hence, full depreciation is allowed for PY 2022-23.
- c) Plot of land: Depreciation is not allowed.
- d) Computer gifted: Actual cost is actual cost to previous owner less depreciation allowable as if the asset was the only asset in the block = 50,000 less 40% depreciation for PY 2021-22 = 30,000. Market value is not relevant.
- e) There is foreign exchange rate gain on payment of 75% of purchase price of machinery on 20.4.2022, that was purchased from USA, i.e.,  $(75 - 72) \times 1,125 \text{ USD} = \text{Rs. } 3,375$ . The machine was added to the block for PY 2021-22 and it is, thus, a part of the block for PY 2022-23. This gain will be reduced from actual cost u/s 43A.
- f) Addition depreciation is not allowed on building structure, motor car, computer, furniture and license. Also, not allowed on machine purchased on 1.3.2022 (on the basis of 50% remaining from PY 2021-22) since it was installed in office.

**2: Amortization of preliminary expenses u/s 35D**

- Cost of project = Actual cost of fixed assets (L&B, leaseholds, P&M, F&F and railway sidings) as per books on last day of First PY, i.e., as on 31.3.2021 = Rs. 25 lakh
- Specified expenditure = Rs. 1,00,000 (market survey by approved concern) + Nil (engineering services by unapproved concern not eligible) + 50,000 (project report preparation by self) = Rs. 1,50,000.
- Eligible expenditure cannot exceed 5% of cost of project = Rs. 1,25,000
- Amortization in 5 equal instalments from PY 2020-21 to PY 2024-25 = Rs. 25,000

**3: Amortization of VRS expenses u/s 35DDA:** Payment of Rs. 15 lakh in the PY 2020-21 deductible in 5 annual instalments from PY 2020-21 to 2024-25 = 3 lakh.

**4: Payments from Sunil & Sushil, partnership firm**

Payment	Deductible for firm	Not deductible for firm
Salary	On first 3 lakh of book profit: Higher of 1,50,000 or 90% of book profit = 2,70,000. On balance 2 lakh of book profit: 60% of 2,00,000 = 1,20,000. Total deductible: 3,90,000	4,40,000 – 3,90,000 = 50,000. 50% attributed to Sunil = 25,000
Interest	@ 12%, i.e., $12/15 \times 20,000 = 16,000$	20,000 – 16,000 = 4,000

# MCQ

## INCOMES CHARGEABLE AS PGBP

- M1.** Which of the following is not added to the net profit as per P&L account to arrive at income under the head PGBP?
- (a) Income taxable but not credited to P&L A/c
  - (b) Deemed income
  - (c) Expenses debited to P&L A/c but disallowed
  - (d) Expenses allowed but not debited to P&L A/c
- M2.** Which of the following is not chargeable to tax under the head 'PGBP'?
- (a) Income from illegal business
  - (b) Income from a vocation
  - (c) Business income received in kind
  - (d) Contingent income
- M3.** Priya received compensation of Rs. 1 crore for premature termination of agency contract. She claims the amount as capital receipts, not chargeable to tax. Is Priya correct?
- (a) Yes
  - (b) No
- M4.** Chelmsford Club has received Rs. 25 lakh as annual fee from its members during the PY. The club provides recreation facilities and services to all its members using the club fund. Is Rs. 25 lakh taxable in the hands of the club?

- (a) Yes (b) No
- M5.** A Chartered Accountant availed of a fully paid trip to Australia hosted by his client. The client provided this facility out of gratitude for the brilliant services rendered by the Chartered Accountant in defending a high-pitched tax litigation. Total cost incurred by the client was Rs. 10 lakh. Rs. 10 lakh is taxable as business income in the hands of the Chartered Accountant.
- (a) True (b) False
- M6.** Mr. Scientist developed a patented formula to manufacture packaged fruit juice. Rasna Ltd. paid Rs. 20 lakh to him for agreeing not to share the formula with anyone else. Rs. 20 lakh is a capital receipt and, hence, not taxable in the hands of Mr. Scientist.
- (a) True (b) False
- M7.** Swiggy Ltd. took a Keyman insurance policy on the life of its COO. It paid premiums every year as per the terms of the policy. On death of the COO during the PY, it received Rs. 1 crore from the insurance company. What is the tax treatment in the hands of Swiggy Ltd.?
- (a) Premiums are deductible and amount received is exempt (b) Premiums are deductible and amount received is taxable
- (c) Premiums are not deductible and amount received is taxable (d) Premiums are not deductible and amount received is exempt
- M8.** Shyam, a farmer, earned taxable business income of Rs. 1 lakh and exempt agricultural income of Rs. 2 lakh during the PY 2022-23. In computing taxable business income, he deducted Rs. 1.5 lakh as expenditure out of which Rs. 1 lakh was expenditure incurred towards earning agricultural income. The taxable business income for PY 2022-23 will be:
- (a) 1 lakh (b) 2 lakh
- (c) 1.5 lakh (d) 2.5 lakh
- M9.** Which of the following is deductible in computing business income?
- (a) Loss of capital nature (b) Trading loss
- (c) Expenditure in relation to exempt income (d) Expense incurred but not paid where cash system of accounting is followed

#### DEDUCTIONS FOR ASSETS

- M10.** An assessee uses plant and machinery for the purposes of carrying on his business. U/s 31, he shall be eligible for deduction on account of:
- (a) Capital as well as revenue expenditure on repairs (b) Current repairs
- (c) Current repairs + 1/5<sup>th</sup> of capital expenditure on repairs (d) Both (a) and (b)
- M11.** Radhey carries out manufacturing operations in a rented factory premises. During the PY 2022-23, he incurred expenditure of Rs. 10,000 on local taxes, Rs. 3,00,000 on rent, Rs. 10,000 as insurance premium, Rs. 20,000 on routine repairs and Rs. 1 lakh on constructing a store room within the premises. He also sublet part of the premises to another person and earned Rs. 50,000 as rent. All payments were made within the PY 2022-23. The amount of net deduction available to Radhey in computing business income, apart from depreciation, will be:
- (a) 4,40,000 (b) 3,40,000
- (c) 2,90,000 (d) 3,90,000
- M12.** Rohit carries out manufacturing operations using plant and machinery taken on hire for Rs. 1,20,000 for PY 2022-23. In addition, he has to pay Rs. 10,000 as insurance premium and periodical repair expenses of Rs. 20,000 for these assets. 25% of the assets are used by Rohit's brother for his business for which Rohit does not charge anything. The amount of deduction available to Rohit in computing his business income will be:
- (a) 1,50,000 (b) 1,12,500
- (c) 1,20,000 (d) 1,40,000
- M13.** Which of the following assets is not entitled to depreciation allowance?
- (a) Roads surrounding the building (b) Livestock
- (c) Scientific apparatus (d) Franchise
- M14.** Depreciation is not allowed in which of the following cases?
- (a) Asset co-owned with another person (b) Asset acquired on operating lease
- (c) Asset acquired on hire purchase (d) Construction of a floor on building taken on hire
- M15.** Depreciation is not allowed in computing PGBP income, on which of the following assets?
- (a) Asset not actually used but ready to be used (b) Banquet hall let out regularly for use by clients
- (c) Asset whose actual cost is nil (d) Asset used only for a day during the PY
- M16.** All plant and machinery are included in one block irrespective of the rate of depreciation.

- (a) True (b) False
- M17.** Which of the following is not entitled to 40% rate of depreciation?  
 (a) Temporary wooden structures (b) Computer software  
 (c) Books (d) Know-how
- M18.** On sale of asset, moneys payable is to be reduced from the WDV to the full extent even if the WDV becomes negative.  
 (a) True (b) False
- M19.** Actual cost of assets acquired during the PY is to be added to the block of assets, irrespective of the period of use.  
 (a) True (b) False
- M20.** For how many days should an asset be used during the PY of acquisition, to avail full depreciation?  
 (a) > 180 days (b) ≥ 180 days  
 (c) > 182 days (d) ≥ 182 days
- M21.** BCD Ltd. incurred expenditure of Rs. 1,50,000 on 1.4.2022 for acquisition of patent and copyrights. Such expenditure is:  
 (a) Eligible for deduction across 14 years starting from PY 2022-23 (b) Eligible for deduction across 5 years starting from PY 2022-23  
 (c) Subject to depreciation @ 25% u/s 32 (d) Subject to depreciation @ 15% u/s 32
- M22.** Jagan started his business on 1.10.2022 by acquiring the following assets: Land for Rs. 30 lakh, building constructed on the land at a cost of Rs. 50 lakh, license and know-how purchased for Rs. 20 lakh, machines worth Rs. 20 lakh taken on operating lease at Rs. 2 lakh p.a., books purchased for Rs. 30,000 and furniture acquired on rent of Rs. 60,000 p.a. What is the total cost of assets on which Jagan can claim depreciation u/s 32?  
 (a) 1,12,90,000 (b) 80,30,000  
 (c) 90,30,000 (d) 70,30,000
- M23.** Jagan purchased 10 equipments of Rs. 50,000 each on 14.6.2022 for his production business, entitled to 15% rate of depreciation. Five equipments were put to use immediately. Two could be put to use only from 10.5.2023. One equipment was installed at his residence for personal use. One equipment was put to use on 1.12.2022. One equipment was not unboxed since it was purchased in excess of requirements. There were no assets in the relevant block as on 1.4.2022. Depreciation allowable for PY 2022-23 will be:  
 (a) 75,000 (b) 41,250  
 (c) 45,000 (d) 60,000
- M24.** BSL Ltd., a power undertaking, following SLM method of depreciation, purchased a machine for Rs. 1 lakh on 10.6.2018, entitled to 25% rate of depreciation. Depreciation for PY 2022-23 on the machine will be:  
 (a) 25,000 (b) 12,500  
 (c) Nil (d) 7,910
- M25.** Rahul commenced his business on 12.7.2022 by acquiring the following assets on the said date: Office building for Rs. 30 lakh, furniture for Rs. 10 lakh, computers for Rs. 2 lakh, computer software for Rs. 50,000, books for Rs. 20,000 and patents and copyrights for Rs. 5 lakh. Depreciation allowable for PY 2022-23 will be:  
 (a) 6,33,000 (b) 4,83,000  
 (c) 5,65,500 (d) 6,65,000
- M26.** Raju acquired two machines for Rs. 60,000 each on 1.2.2022. The first machine was put to use immediately while the second machine was put to use from 10.4.2022. The first machine was sold for Rs. 40,000 on 15.12.2022. These machines are the only assets in the block entitled to 15% rate of depreciation. Calculate the depreciation for PY 2022-23.  
 (a) 9,300 (b) 10,650  
 (c) 11,150 (d) 11,325
- M27.** Which of the following forms part of actual cost of an asset?  
 (a) Interest for the entire tenure of loan taken to purchase the asset (b) Modification to asset after it has been put to use  
 (c) GST on which ITC has not been allowed (d) Subsidy from Government to meet the cost of asset
- M28.** Which of the following expenses incurred in connection with acquisition of the asset does not form part of its actual cost?  
 (a) Cash payment of Rs. 10,000 made to Mr. X on 1 January (b) UPI payment of Rs. 20,000 made to Mr. X on 1 January  
 (c) Cash payment of Rs. 10,000 made to Mr. X, each on 1 January and 2 January (d) Bearer cheque of Rs. 20,000 issued to a transporter on 1 January
- M29.** Mr. Z, a retailer, acquired furniture on 10.5.2022 for Rs. 10,000 in cash and on 15.5.2022 for Rs. 15,000 and Rs. 20,000 by a bearer cheque and account payee cheque, respectively. Depreciation allowable for AY 2023-24 would be:



- (a) 2,000 (b) 3,000  
(c) 3,500 (d) 4,500

**M30.** An assessee purchases a machine worth Rs. 80,000 on 5.9.2022 and makes the payment of Rs. 45,000 by account payee cheque and Rs. 20,000 in cash on the same date. The balance of Rs. 15,000 is paid by bearer cheque on 6.9.2022 when the machine is delivered. Compute the actual cost.

- (a) 45,000 (b) 80,000  
(c) 60,000 (d) 65,000

**M31.** The WDV of a block of assets (plant and machinery, rate of depreciation 15%) as on 1.4.2022 is Rs. 3,20,000. A second hand machinery costing Rs. 50,000 was acquired on 1.9.2022 through account payee cheque but put to use on 1.11.2022. During January 2023, part of this block was sold for Rs. 2,00,000. Depreciation for AY 2023-24 would be:

- (a) 21,750 (b) 25,500  
(c) 21,125 (d) 12,750

**M32.** Sumit acquired life saving medical equipment priced at Rs. 10 lakh during the PY 2022-23. It was ordered on 15.4.2022, delivered on 15.9.2022 and put to use on 15.11.2022. Interest on loan taken to purchase the equipment, payable till 15.11.2021 was Rs. 20,000. Sumit spent Rs. 10,000 in cash on freight, carriage and unloading of the equipment. Besides, he had to incur installation charges of Rs. 15,000 which were paid in cash on the date of installation to the vendor. GST was payable @ 12% which was claimed as input tax credit. Sumit received 50% of purchase price as subsidy from the State Government. Rs. 1 lakh towards the price of equipment was paid by bearer cheque while the balance was paid through ECS facility of his bank. Calculate the depreciation allowed u/s 32 for PY 2022-23 assuming that this is the only asset in the block.

- (a) 1,72,000 (b) 1,09,000  
(c) 86,000 (d) 2,09,000

**M33.** Additional depreciation is available on which of the following?

- (a) Patent acquired by a manufacture of medicines (b) Tempo for carrying goods to warehouse  
(c) Machine, earlier used in scientific research, full cost of which has been allowed as deduction (d) New computer installed in factory premises

**M34.** A machine acquired during the PY and entitled to additional depreciation, is allowed such depreciation @ 10% (i.e., at 50% rate) since it was put to use on 15 March of that PY. How much additional depreciation will be allowed in the subsequent year?

- (a) 20% again (b) Nil  
(c) Balance 10% (d) At the discretion of AO

**M35.** Mr. Shine, engaged in manufacture of computers, purchased machinery A, B and C on 5.9.2022 for Rs. 1 lakh each, entitled to 15% depreciation. Second hand Machine A was imported from France which was not used any time before in India. Machine B was installed in the office. Machine C was installed in the factory. Compute the normal depreciation and additional depreciation allowable for AY 2023-24.

- (a) 45,000 and 20,000 (b) 30,000 and 20,000  
(c) 45,000 and 60,000 (d) 45,000 and 40,000

**M36.** Spark Ltd, a power company, following WDV method of depreciation, acquired Machine A on 5.3.2022 and Machine B on 5.4.2022 for Rs. 1 lakh each, entitled to 40% depreciation on the block of assets. It further acquired furniture on 5.5.2022 for Rs. 1 lakh and patent on 5.6.2022 for 2 lakh. All these assets were used in the manufacturing facility of the company. Calculate the additional depreciation for AY 2023-24.

- (a) 40,000 (b) 20,000  
(c) Nil (d) 30,000

**M37.** Madhav, a retail trader in electronic items, acquired and installed a machine costing Rs. 1 lakh in his showroom on 15.4.2022. Compute the additional depreciation for AY 2023-24 in this respect.

- (a) Nil (b) 20,000  
(c) 10,000 (d) 15,000

**M38.** BSES Ltd., following SLM method of depreciation, purchased a machine on 15.3.2023 for use in the power production. What is the extent of depreciation that will be allowed for AY 2023-24?

- (a) 100% normal depreciation + 20% additional depreciation (b) 100% normal depreciation + Nil additional depreciation  
(c) 50% normal depreciation + Nil additional depreciation (d) 50% normal depreciation + 20% additional depreciation

**M39.** An electricity company charging depreciation on straight line method on each asset separately, sold one of its machinery in April 2022 for Rs. 1,20,000. WDV of the machinery at the beginning of the year, i.e., on 1 April 2022 was Rs. 1,35,000. No new machinery was purchased during the year. The shortfall of Rs. 15,000 will be treated as:

- (a) Terminal depreciation (b) Short term capital loss

- (c) Normal depreciation (d) Any of the above, at option of assessee

**M40.** Rambo imported machinery on 1.8.2021 for USD 10,000 from the USA. The machinery was first put to use on 1.8.2021 and the purchase price was paid on the same date. Calculate depreciation for AY 2023-24 if rate of depreciation is 15% and the machinery is the only asset in the block. Exchange rate for 1 USD was Rs. 75 on 1.8.2021, Rs. 70 on 31.3.2022 and Rs. 73 on 31.7.2022.

- (a) 99,819 (b) 85,120  
(c) 86,456 (d) 95,625

**M41.** Rambo imported machinery on 1.8.2021 for USD 10,000 from the USA by paying 25% of the price upfront with the balance payable on 31.7.2022. Calculate depreciation for AY 2023-24 if rate of depreciation is 15% and the machinery is the only asset in the block. Exchange rate for 1 USD was Rs. 75 on 1.8.2021, Rs. 70 on 31.3.2022 and Rs. 73 on 31.7.2022.

- (a) 93,375 (b) 95,625  
(c) 97,875 (d) 92,625

**M42.** Sumit acquired a building for Rs. 15 lakh in June 2020, in addition to the cost of Rs. 3 lakh that he paid in respect of the land on which the building was situated. It was used for his personal purposes until he commenced business in June 2022 and since then it was used for his business purposes. Building is the only asset in the relevant block of assets. The amount of depreciation eligible in his case for AY 2023-24 is:

- (a) 1,50,000 (b) 1,45,800  
(c) 1,80,000 (d) 1,21,500

**M43.** Jay gifted his laptop to Viru on 10.4.2022. This was purchased by Jay on 15.4.2020 for Rs. 30,000. Calculate the depreciation available to Viru for AY 2023-24. Laptop is the only asset in the block of assets in the case of Viru as well as Jay.

- (a) 4,320 (b) 12,000  
(c) 7,200 (d) Nil

**M44.** Sunil purchased a laptop on 10.4.2020 for Rs. 30,000, sold it to Sahil on 10.4.2022 for Rs. 5,000 and purchased it back from him on 10.5.2022 for Rs. 30,000. Calculate the depreciation available to Sunil for AY 2023-24.

- (a) 12,000 (b) 2,000  
(c) 4,320 (d) Nil

**M45.** Mr. King earned composite agricultural income from tea business. He purchased his first machinery for Rs. 1 lakh on 15.6.2021 entitled to 15% rate of depreciation. Calculate depreciation allowable to him for AY 2023-24 in computing composite income, i.e., before apportionment of income into taxable and exempt income.

- (a) 15,000 (b) 14,100  
(c) 12,750 (d) 7,500

**M46.** In respect of which of the following assets is deduction allowed u/s 35AD?

- (a) Asset purchased before commencement of business which is not capitalized in books as on that date  
(b) Asset brought into specified business from a non-specified business carried on by assessee  
(c) Second hand plant and machinery used to set up specified business of up to 20% of total value of plant and machinery used in specified business  
(d) Machinery purchased by paying Rs. 1 lakh by a crossed cheque

**M47.** Deduction u/s 35AD is mandatory.

- (a) True (b) False

**M48.** Depreciation is not barred in which of the following cases?

- (a) Asset used in specified business on which deduction is allowed u/s 35AD  
(b) Asset (on which deduction is allowed u/s 35AD) transferred from specified to non-specified business within 8 years of its acquisition  
(c) Asset transferred (on which deduction is allowed u/s 35AD) from specified to non-specified business after 8 years of its acquisition  
(d) Asset acquired for non-specified business as a gift from a person who availed 35AD deduction for such asset

**M49.** Gupta ji commenced business of fertilizer production in India on 20.4.2022. He had acquired plot of land for Rs. 30 lakh on 1.11.2021 on which he constructed factory at a cost of Rs. 40 lakh (completed on 15.3.2022, cost capitalized in books as on 20.4.2022). He also imported a second-hand machinery for Rs. 5 lakh on 20.5.2022 (15% rate of depreciation) which was not used any time before in India and depreciation was never claimed under the Act in respect of such machinery. He purchased new furniture of Rs. 25,000 on 30.6.2022 by making payment in cash. He has opted to claim benefit of section 35AD. Calculate the amount of deduction available to him for AY 2023-24 u/s 35AD and u/s 32.

- (a) 45 lakh; Nil (b) 45.25 lakh; 75,000

- (c) 75 lakh; 2,500 (d) 75.25 lakh; Nil

**M50.** Sharma ji carries on the business of operating a one-star hotel in Delhi which was commenced in the PY 2021-22. During the PY 2022-23 he incurred capital expenditure on purchase of second-hand local-made furniture on 15.3.2023 worth Rs. 5 lakh. What is the deduction available to him for AY 2023-24 in this respect?

- (a) 5 lakh u/s 35AD (b) 5 lakh u/s 35AD and 25,000 u/s 32  
(c) 50,000 u/s 32 (d) 25,000 u/s 32

**M51.** Jaguar Pvt. Ltd., engaged in warehousing business for sugar, sold a building for Rs. 50 lakh during the PY 2022-23 which was acquired two years back for Rs. 40 lakh. 100% of this amount was deducted u/s 35AD in the year of acquisition. Amount taxable for AY 2023-24 will be:

- (a) 50 lakh (b) 10 lakh  
(c) Nil (d) 40 lakh

**M52.** Jaguar Pvt. Ltd, engaged in warehousing business of agricultural produce, transferred a building to its retail business on 15.9.2022. Building was purchased for warehousing business for Rs. 50 lakh on 15.9.2021 and deduction was allowed u/s 35AD. Compute tax implications of this transaction for AY 2023-24. Building is the only asset in the relevant block of assets.

- (a) 45 lakh taxable income; 4.5 lakh depreciation (b) 50 lakh taxable income; 5 lakh depreciation  
(c) Nil taxable income; Nil depreciation (d) Nil taxable income; 5 lakh depreciation

**M53.** Jaguar Pvt. Ltd, engaged in cold chain business, transferred a machinery to its retail business on 15.9.2022. Machinery was purchased for cold chain business for Rs. 50 lakh on 15.9.2010 on which deduction was allowed u/s 35AD. Compute tax implications of this transaction for AY 2023-24. Assume machinery is the only asset in its block.

- (a) 50 lakh taxable income; Nil depreciation (b) 50 lakh taxable income; 5 lakh depreciation  
(c) Nil taxable income; Nil depreciation (d) Nil taxable income; 5 lakh depreciation

**M54.** Which of the following deductions are not allowed in respect of stock-in-trade?

- (a) Insurance premium (b) Loss due to fire  
(c) Likely fall in market prices (d) Commodities Transaction Tax

#### AMORTIZATION

**M55.** Mr. Rajput, a resident, set up a new manufacturing unit during PY 2022-23 for which he incurred Rs. 5 lakh for conducting market survey by self and Rs. 3 lakh on preparation of feasibility report by an unapproved agency during PY 2021-22. AO has disallowed Rs. 8 lakh stating that these have been incurred before commencement of business of the new unit. Cost of project as per books as on 31.3.2023 is Rs. 80 lakh. What is the correct tax treatment?

- (a) 8 lakh deductible for PY 2021-22 (b) 8 lakh deductible for PY 2022-23  
(c) 3 lakh deductible for PY 2022-23 (d) 80,000 deductible for PY 2022-23

**M56.** Which of the following expenditure, incurred by Gyan Ltd, an Indian company, before commencement of its business on 15.4.2022, is not eligible for amortization u/s 35D?

- (a) Legal charges for drafting agreements paid to a concern (b) Expenses on public issue of shares  
(c) Preparation of feasibility report by an unapproved concern (d) Registration fees under Companies Act paid to Chartered Accountant

**M57.** Expenditure under voluntary retirement scheme is not deductible for a partnership firm or LLP.

- (a) True (b) False

**M58.** Seva Ltd. launched a voluntary retirement scheme for its employees during PY 2017-18. Total compensation under the scheme amounted to Rs. 30 lakh. Deduction available for PY 2022-23 in this respect is:

- (a) Nil (b) 6 lakh  
(c) 4 lakh (d) 2 lakh

#### EXPENDITURE FOR SPECIAL PURPOSES

**M59.** Which of the following is not correct in respect of deduction for scientific research u/s 35?

- (a) Depreciation can be claimed on assets on which deduction is not allowed u/s 35 (b) 100% deduction is allowed for in-house capital expenditure on scientific research even if asset is not put to use during the PY  
(c) Expenditure on scientific research needs to be certified, whether incurred pre or post commencement of business (d) In-house expenditure is not deductible if scientific research is not related to the business of the assessee

**M60.** Which of the following in-house expenditure on scientific research is allowed as deduction u/s 35?

- (a) Capital expenditure incurred four years before commencement of business
- (b) Purchase of material for scientific research after commencement of business which is not certified by the prescribed authority
- (c) Purchase of land for setting up scientific research facility
- (d) Salary to employees engaged in scientific research for 3 years preceding commencement of business which is not certified

**M61.** Rain Pvt. Ltd. made the following donations during the PY 2022-23: Rs. 20,000 to Gyan University (notified) for statistical research (approval was withdrawn subsequent to making the payment), Rs. 30,000 to Sudha college (not notified) for social science research, Rs. 10,000 to a German company for scientific R&D, Rs. 15,000 to IIT, Kanpur for scientific research under an approved program (which was withdrawn subsequent to making the payment). It has claimed deduction of the entire amount in computing income under the head PGBP for AY 2023-24. What is the amount of deduction available to Rain Pvt. Ltd. u/s 35?

- (a) 75,000 (b) 35,000  
(c) Nil (d) 45,000

**M62.** M/s Science & Co. commenced its business of medicines on 1.4.2022. From 1.4.2020 to 31.3.2022, it spent Rs. 5 lakh on salary of employees and purchase of materials for scientific research on medicines (out of which only 40% was certified by the prescribed authority). It spent Rs. 6 lakh for the same purpose during PY 2022-23 (which was not certified). It also purchased land for Rs. 30 lakh and equipment to be used in research for Rs. 10 lakh during PY 2022-23. How much deduction is available for PY 2022-23 in respect of all this expenditure?

- (a) 2 lakh deduction; depreciation on 10 lakh (b) 11 lakh deduction; depreciation on 10 lakh  
(c) 18 lakh deduction; no depreciation (d) 42 lakh deduction; no depreciation

**M63.** Mr. X acquired an asset for use in scientific research for Rs. 2,75,000 and claimed deduction u/s 35(1)(iv) in this respect during the PY 2018-19. The asset was brought into use for the business of Mr. X after the research was completed. The actual cost of asset to be included in the block of assets will be:

- (a) Nil (b) Market value on the date of transfer to business  
(c) Rs. 2.75 lakh – Notional depreciation up to the date of transfer (d) Actual cost, i.e., 2.75 lakh

**M64.** Mr. Y purchased a machine for Rs. 3 lakh on 10.4.2020 on which full deduction was allowed u/s 35 during the PY 2020-21. Upon completion of scientific research, the machine was sold for Rs. 1 lakh during the PY 2022-23. The amount taxable as business income during PY 2022-23 will be:

- (a) Nil (b) 1 lakh  
(c) 3 lakh (d) 2 lakh

#### INTEREST

**M65.** Which of the following payments on account of interest is not deductible?

- (a) Interest on loan taken from bank, unpaid till the due date to file return of income for the PY
- (b) Interest on loan taken from friend, unpaid till the due date to file return of income for the PY
- (c) Interest on loan taken to purchase a depreciable asset, for the period after the asset is first put to use
- (d) Interest on loan taken to purchase raw material, which was destroyed by earthquake

**M66.** Raju paid interest on loan taken from Bank of India to purchase a machine which was put to use on 10.8.2022 (interest for the PY 2022-23 was Rs. 50,000 out of which Rs. 20,000 was for the period till 10.8.2022). Interest of March 2023 of Rs. 4,000 was paid after the due date to file return for the AY 2023-24. How much deduction is available to Raju for AY 2023-24?

- (a) 50,000 (b) 46,000  
(c) 30,000 (d) 26,000

**M67.** Rajnish took a business loan from a firm (in which his wife held 50% profit share) @ 20% p.a. interest (market rate was 15% p.a.) on which interest of Rs. 60,000 for the PY 2022-23 remained unpaid till the due date to file return for such PY. Interest of Rs. 30,000 also arose on outstanding payments to trade creditors, 75% of which was paid till 31.3.2023 and the rest was paid after the due date to file return for the PY. He also took a loan from SBI to buy a car for personal use on which interest of Rs. 20,000 was duly paid on time during the PY. The deduction available in computing income under the head PGBP for PY 2022-23 is:

- (a) 90,000 (b) 22,500  
(c) 75,000 (d) 82,500

**M68.** Danny took loan of Rs. 1 crore from a NBFC for business purposes, in respect of which interest of Rs. 10 lakh for the PY 2022-23 was paid during the PY 2022-23 to the extent of 60% and between the period 1.4.2023 to 30.6.2023 to the extent of 40%. He incurred a loss in the business for the PY 2022-23. AO disallowed the interest on the ground that deployment of loan amount did not generate any income. Is the action of AO correct? If no, how much interest should he allow for AY 2023-24?

- (a) Yes; Nil (b) No; 10 lakh

- (c) No; 6 lakh (d) Yes; in his discretion

**M69.** Raj Dhan Bank, a scheduled bank, issued 20,000 notified zero coupon bonds on 10.10.2022 at issue price of Rs. 150. The face value as well as the amount payable on maturity after 3 years (i.e., on 9.10.2025) is Rs. 200. Compute the deduction available to Raj Dhan Bank for AY 2023-24 in respect of discount on such bonds.

- (a) 1,66,668 (b) 1,62,162  
(c) 3,24,324 (d) 3,33,333

#### EMPLOYEE WELFARE

**M70.** Which of the following payments made by an employer in respect of recognized provident fund are deductible in computing business income?

- (a) Employer's contribution paid after the due date to file return for the PY (b) Employee's contribution received and retained by employer with himself.  
(c) Employee's contribution received and credited to their account in the fund on 31.10.2023 being the due date to file return for the PY 2022-23 (d) Employee's contribution received and credited to their account in the fund by the due date as per rules of the Fund

**M71.** Which of the following is deductible in computing business income of Blue Sky LLP for AY 2023-24 in respect of gratuity payments pertaining to PY 2022-23? Due date to file return is 31.10.2023.

- (a) LLP's contribution to approved gratuity fund paid on 31.5.2023 (b) Provision for payment of gratuity made on 31.3.2023. No gratuity has become payable.  
(c) Provision for payment of contribution to approved gratuity fund made on 31.3.2023 (payment to fund made on 15.12.2023) (d) Payment of gratuity to employees out of approved gratuity fund (contribution to fund was allowed as deduction in the year of contribution)

**M72.** Which of the following employee welfare expenditure is allowed in computing business income of an employer?

- (a) Contribution to unapproved gratuity fund (subject to section 43B) (b) Contribution to approved superannuation fund (subject to section 43B)  
(c) Health insurance premium paid in cash (d) Bonus in guise of profits

**M73.** Employer's contribution to NPS is deductible to what extent?

- (a) Actual contribution (b) Up to 10% of income under the head 'Salaries'  
(c) Up to 12% of salary being basic salary + Dearness Allowance + Commission (d) Up to 10% of salary being basic salary + Dearness Allowance (if terms provide) + Commission (based on turnover)

**M74.** Suhail paid mediclaim premium of Rs. 35,000 to National Insurance Company for his employees on 15.11.2022 by way of an account payee cheque. Will Rs. 35,000 be deductible in the hands of Suhail for AY 2023-24?

- (a) Yes (b) No

**M75.** Zydus Ltd. incurred the following employee welfare cost during PY 2022-23: Group health insurance premium of Rs. 1 lakh paid by account payee cheque; Commission of Rs. 3 lakh paid to a senior employee shareholder which would otherwise have been payable as dividend (paid on 31.3.2023); EPF contribution of Zydus Ltd. of Rs. 2 lakh and of employees of Rs. 2 lakh paid on 15.7.2023 (after 15 day time prescribed under EPF Scheme). Due date to file return for Zydus Ltd. is 31.10.2023. The amount deductible for AY 2023-24 in computing business income will be:

- (a) 8 lakh (b) 5 lakh  
(c) 3 lakh (d) 6 lakh

#### TAXES

**M76.** Which of the following expenditure incurred on taxes is allowable as deduction?

- (a) Interest on delayed payment of income-tax (b) STT on sale of shares held as investment  
(c) Penalty for contravention of GST law (d) CTT on trading of commodities

**M77.** Which of the following expenditure incurred on taxes is not allowable as deduction?

- (a) Penalty under Customs law which is compensatory in nature (b) Professional tax paid to the State Government  
(c) Tax on non-monetary perquisites paid by the employer on behalf of employees (d) STT paid in the course of share trading

**M78.** For the PY 2022-23, Jacky, a dealer in commodities, paid CTT of Rs. 10,000. He further paid STT of Rs. 3,000 on sale of shares held as investment. STT and CTT were charged by the exchanges at the time of transactions. He paid Rs. 30,000 as income tax while filing his return before the due date, along with interest on delayed payment of advance tax of Rs. 2,000 as well as penalty of Rs.

5,000 for failure to deduct TDS. He was also asked to pay GST of Rs. 10,000 which he paid after the due date to file return for the PY. During the year, he had to pay penalty under excise law of Rs. 10,000 on 12.2.2023 (out of which Rs. 4,000 was compensatory in nature). The deduction allowed to him for AY 2023-24 in respect of these payments will be:

- (a) 72,000 (b) 25,000  
(c) 35,000 (d) 14,000

**M79.** Rohan, a dealer in shares and securities, paid Rs. 20,000 as STT on the National Stock Exchange. Rs. 20,000 will be allowed as deduction in computing his business income.

- (a) True (b) False

**M80.** Refund of income-tax received with a delay and interest thereon is taxable as business income.

- (a) Yes (b) No  
(c) Yes for refund; no for interest (d) No for refund; yes for interest

**M81.** Tax on non-monetary perquisite paid by the employer on behalf of employee is:

- (a) Exempt for employer and employee (b) Disallowed for employer and taxable for employee  
(c) Exempt for employer and taxable for employee (d) Disallowed for employer and exempt for employee

### SPECIAL DEDUCTIONS

**M82.** Bad debt is allowed as deduction in computing business income if:

- (a) It is proven to have become irrecoverable, though not written off in books of accounts (b) It is written off as irrecoverable in books of accounts, though not proven so  
(c) It is expected to become bad and a provision is made thereof in the books of accounts (d) The AO deems it fit in his discretion to allow deduction

**M83.** Rohit sold goods to Mohit in PY 2021-22 for Rs. 3 lakh out of which he wrote off Rs. 1 lakh during the PY 2022-23 as irrecoverable, without exhausting all legal remedies. He had also paid advance of Rs. 50,000 to Shobhit for supply of raw materials which Shobhit forfeited on 10.11.2022 due to breach of terms. He had extended a loan of Rs. 1 lakh to his friend to help him start a new business but his friend became insolvent. Rohit wrote off the loan on 10.2.2023. The amount of deduction allowed in computing business income for AY 2023-24 will be:

- (a) 1,00,000 (b) 1,50,000  
(c) 2,50,000 (d) 50,000

**M84.** Gaurav, a money lender, advanced loan of Rs. 10 lakh to Saurav on 15.5.2020 to help him meet a personal exigency. Saurav became insolvent and could not repay any portion of principal or interest. Gaurav wrote off Rs. 10 lakh along with accumulated interest of Rs. 2 lakh on 1.4.2022. Amount deductible in the hands of Gaurav for AY 2023-24 will be:

- (a) 10 lakh (b) 2 lakh  
(c) 12 lakh (d) Nil

**M85.** Gaurav, a manufacturer, advanced Rs. 1 lakh to Saurav on 15.3.2022 towards purchase of plant and machinery for use in manufacturing process. Saurav became insolvent and could not deliver the products as well as repay the advance. Gaurav wrote off Rs. 1 lakh on 15.4.2022. Amount deductible in the hands of Gaurav for AY 2023-24 will be:

- (a) 1 lakh (b) 2 lakh  
(c) 50,000 (d) Nil

**M86.** Green Ltd. sold goods to Mr. Z for Rs. 1 lakh during PY 2020-21. It wrote off Rs. 30,000 during PY 2021-22 as irrecoverable and claimed deduction. It ultimately recovered Rs. 20,000 during PY 2022-23. Tax implications for AY 2023-24 will be:

- (a) 50,000 is deductible (b) Nothing is deductible  
(c) 20,000 is taxable (d) 80,000 is deductible

**M87.** Red Ltd. manufactured and sold medical equipment to Mr. K for Rs. 1 lakh during PY 2020-21. It wrote off Rs. 30,000 during PY 2021-22 as irrecoverable and claimed deduction. It discontinued its manufacturing business on 31.3.2022 while continuing its other retail business. It ultimately recovered Rs. 90,000 during PY 2022-23. Tax implications for AY 2023-24 will be:

- (a) 90,000 is taxable (b) 20,000 is taxable  
(c) 50,000 is taxable (d) Nothing is taxable since business is discontinued

**M88.** Remuneration paid by a firm to its partners is not allowed as deduction in the hands of the firm if:

- (a) It is retrospective to the date of partnership deed (b) It is not authorized by partnership deed  
(c) It is paid to sleeping partner (d) All of the above

**M89.** Sharma & Sons, paid Rs. 1 lakh to each of the 3 partners as remuneration for PY 2022-23 in terms of partnership deed. Book profit of the firm for PY 2022-23 was Rs. 5 lakh. Remuneration deductible in the hands of the firm will be:

- (a) 3 lakh (b) 2 lakh

- (c) 3.9 lakh (d) 1 lakh

**M90.** M/s Thakur & Sons paid Rs. 11 lakh as remuneration to its partners. The same was in accordance with partnership deed. Partners are also entitled to interest on capital @ 11% as per partnership deed. Total interest paid during the year is Rs. 1,30,000. The book profit before interest on capital and remuneration is Rs. 37 lakh. The salary allowable as deduction to the firm is:

- (a) 22,62,000 (b) 11,00,000  
(c) 23,10,000 (d) 22,32,000

**M91.** M/s Ram & Shyam paid Rs. 1.5 lakh each to both its partners as remuneration. Further, it paid Rs. 25,000 as interest on capital to Ram @ 10%. Income under the head PGBP, computed under the Act after deducting these payments, amounted to Rs. 1 lakh. The firm earned capital gains of Rs. 1 lakh and income from house property of Rs. 50,000 during the PY. Amount taxable in the hands of the firm under the head 'PGBP' for AY 2023-24 will be:

- (a) 1.25 lakh (b) 2.5 lakh  
(c) 1 lakh (d) 2.75 lakh

**M92.** M/s Krishan & Co. paid salary of Rs. 3 lakh each to its two partners, Krishna and Balaram. It also paid interest @ 15% on capital contribution of Rs. 10 lakh made by Balaram. Book profit of the firm, as computed u/s 40(b), is Rs. 5 lakh. Both partners got Rs. 50,000 each as share in the profits of the firm. Income taxable in the hands of Krishna and Balaram for AY 2023-24 will be:

- (a) 2.45 L (Krishna); 3.65 L (Balaram) (b) 1.05 L (Krishna); 1.35 L (Balaram)  
(c) 1.95 L (Krishna); 1.35 L (Balaram) (d) 1.95 L (Krishna); 3.15 L (Balaram)

**M92a.** JK & Co, a partnership firm, paid Rs. 1,50,000 each as remuneration to its working partners, A, B and C. It also paid interest @ 12% p.a. to its partners amounting to Rs. 4,00,000. Net business loss of the firm (after deducting remuneration and interest paid) was computed at Rs. 80,000. Compute the remuneration from the firm taxable in the hands of B.

- (a) 94,000 (b) 1,04,000  
(c) Nil (d) 1,50,000

**M92b.** Rohit is a partner in a firm on behalf of his HUF. The HUF has contributed Rs. 10 lakh as capital in the firm. Rohit has also extended a loan of Rs. 6 lakh to the firm in his individual capacity. The firm has paid interest on capital as well as loan @ 15% p.a. interest which is similar to the rate prevailing in the market. Compute the amount of interest deductible in the hands of the firm for the PY. Payment of interest is authorized by the partnership deed.

- (a) Nil (b) 2,10,000  
(c) 2,40,000 (d) 1,92,000

#### GENERAL DEDUCTION

**M93.** Which of the following is not a condition for deduction of an expenditure u/s 37(1)?

- (a) It is revenue in nature (b) It is a business loss  
(c) It is not a personal expenditure (d) It is not prohibited by law

**M94.** Which of the following expenditure incurred by Jack Ltd. during PY 2022-23 is not deductible for AY 2023-24?

- (a) Rs. 10 lakh paid to lawyer to defend a civil suit against its business client (b) Rs. 1 lakh paid to Chartered Accountant as fee for meeting compliances under various laws  
(c) Protection money paid to local politician (d) Keyman insurance premium paid on life of its CFO

**M95.** Which of the following expenditure incurred by Swan Ltd. during PY 2022-23 is deductible for AY 2023-24?

- (a) Penalty (penal in nature) of Rs. 1 lakh paid under Customs law for violating its provisions (b) Provision of Rs. 2 lakh created on 31.3.2023 to meet litigation expenses if contractual disputes arise in future  
(c) Gifts of Rs. 15 lakh distributed to doctors to make them recommend medicines distributed by Swan Ltd. (d) Damages of Rs. 1 lakh paid to customer for not supplying goods on time in terms of the contract

**M96.** During the PY 2022-23, Roma availed loan of Rs. 20 lakh from SBI to purchase raw material and paid interest of Rs. 2 lakh thereon (50% was paid after the due date to furnish return of PY 2022-23). She spent Rs. 20,000 as brokerage and bank charges for arranging the loan. She also paid Rs. 10,000 during the year for publishing of advertisement in a pamphlet published by a political party. Two computers were purchased on 1.5.2022 for Rs. 50,000 each for use in office and these were the only assets in the relevant block of assets. Compute the amount of deduction allowable to Roma for AY 2023-24 in computing business income.

- (a) 1,20,000 (b) 1,60,000  
(c) 2,60,000 (d) 1,30,000

**M97.** Shine Pvt. Ltd. incurred the following expenditure on its employees for the PY 2022-23: Salary of Rs. 50 lakh; group health insurance premium of Rs. 1 lakh (paid by cheque); Employee's contribution to EPF of Rs. 1 lakh (paid before the EPF due date) and own contribution to EPF of Rs. 1 lakh (paid after the due date to furnish return for PY 2022-23); gratuity paid Rs. 3 lakh (out of approved gratuity fund), tax of Rs. 2 lakh deducted u/s 192 from above stated salary of Rs. 50 lakh and deposited within due date. Deduction available to Shine Pvt. Ltd. for AY 2023-24 will be:

- (a) 57,00,000 (b) 58,00,000  
(c) 52,00,000 (d) 58,20,000

**M98.** Play Pvt. Ltd. spent Rs. 1.5 lakh during the PY 2022-23 on CSR expenses required under the Company Law. It lost Rs. 1 lakh on account of embezzlement of money by one of its employee. During the year, it donated Rs. 2 lakh to the National Laboratory for undertaking scientific research on a program (not approved till the date of payment). Rs. 50,000 had to be paid as interest on delayed payment to creditors for purchase of stock. Determine the amount allowed as deduction to Play Pvt. Ltd. for AY 2023-24 in computing business income.

- (a) 1,50,000 (b) 3,50,000  
(c) 3,00,000 (d) 5,00,000

**M99.** Mr. Roy, carrying on agency business and maintaining books of account on mercantile basis, incurred expenditure of Rs. 20,000 during the PY 2022-23 towards advertisement and publicity. He also spent Rs. 10,000 on celebration in office on the occasion of New Year and Diwali. He spent Rs. 20,000 as fee for a training program attended by him and his employees to gain contemporary business skills. He had to pay Rs. 2,500 as professional tax levied by the State Government. He filed his return of income on 15.9.2023 after paying Rs. 45,000 as income-tax. Office expenditure of Rs. 50,000 incurred last year but missed to be booked, was debited in the accounts for PY 2022-23. Deduction allowed to Mr. Roy for AY 2023-24 in computing his business income will be:

- (a) 92,500 (b) 50,000  
(c) 1,00,000 (d) 52,500

#### EXPENSES NOT DEDUCTIBLE IN CERTAIN CIRCUMSTANCES

**M100.** 30% of expenditure is disallowed in the previous year of incurrence by virtue of section 40(a)(ia) if:

- (a) Tax is deducted and paid in that year (b) Tax is deducted in that year but paid on or before the due date to furnish return of that year  
(c) Tax is not deducted in that year but it is paid by the payee who has furnished return for that year on the due date, after including such income, and payer has obtained CA certificate to this effect (d) Tax is not deductible from the payment and, thus, it has not been deducted

**M101.** Expenditure is fully allowed in the year of incurrence u/s 40(a)(i) if:

- (a) Tax is deducted in that year but paid after the due date to furnish return of that year (b) Tax is deductible from the payment but is not deducted in that year  
(c) Tax is not deducted in that year but it is paid by the payee who has furnished return for that year on the due date, after including such income, and payer has obtained CA certificate to this effect (d) Tax is deducted in that year and paid in that year or by the due date to furnish return of that year

**M102.** Beta Ltd. incurred royalty expenditure of Rs. 2 lakh and made payment to Gama Ltd. of Brazil on 5.3.2023 after deduction of tax at source u/s 195. In which of the following circumstances will the expenditure be allowed as deduction to Beta Ltd. for AY 2023-24? Due date to file return for Beta Ltd. is 31.10.2023.

- (a) Tax is paid on 10.3.2023 (b) Tax is paid on 10.9.2023  
(c) Tax is paid on 10.11.2023 (d) Cases a and b

**M103.** Gita pays rent of Rs. 1 lakh to Rohan, a resident, on 5.1.2023 (tax is deductible u/s 194-I) without deduction of tax. She deducts tax on 5.4.2023 and deposits it with the Government on 10.4.2023. In which year will rent be allowed as deduction?

- (a) 70,000 in PY 2022-23; 30,000 in PY 2023-24 (b) 1,00,000 in PY 2022-23  
(c) 1,00,000 in PY 2023-24 (d) 70,000 in PY 2023-24; 30,000 in PY 2024-25

**M104.** Sita incurs expenditure of Rs. 1 lakh as fees for technical services and makes the payment to Mita (a resident) on 4.2.2023 after deducting tax at source u/s 194J. She deposits the tax on 27.12.2023. In which year will the expenditure be allowed as deduction? Due date to furnish return for Sita is 31.10.2023.

- (a) 1 lakh in PY 2022-23 (b) 1 lakh in PY 2023-24  
(c) 30,000 in PY 2022-23; 70,000 in PY 2023-24 (d) 70,000 in PY 2022-23; 30,000 in PY 2023-24

**M105.** JP Ltd. credits a sum of Rs. 45,000 as commission to Z Ltd., an Indian company, on 25.6.2022 without deducting tax at source. Z Ltd. paid its entire tax liability on its income by way of advance payment of tax during PY 2022-23 and filed its return of income for AY 2023-24 on 15.10.2023. JP Ltd. has obtained certificate in Form No. 26A from a CA to this effect. Compute the amount of deduction that shall be allowed to JP Ltd. for AY 2023-24 in respect of commission credited to Z Ltd. assuming that JP Ltd. follows mercantile system of accounting.

- (a) 45,000 (b) Nil



- (c) 13,500 (d) 31,500

**M106.** Mr. Sweet credited interest of Rs. 1 lakh to the account of Ms. Sweety (a resident) on 15.3.2023 without deducting tax at source since TDS provisions did not apply to this payment. Ms. Sweety paid tax on her total income on 10.9.2023 but filed her return of income on 15.12.2023 (including said interest income). Interest will be deductible in the hands of Mr. Sweet in which PY?

- (a) 70,000 in PY 2022-23; 30,000 in PY 2023-24 (b) 1,00,000 in PY 2022-23  
(c) 1,00,000 in PY 2023-24 (d) 70,000 in PY 2022-23; 30,000 in PY 2023-24

**M107.** Salary payable in India to a non-resident is disallowed if tax has not been paid thereon nor deducted therefrom.

- (a) True (b) False

**M108.** Manas has paid interest of Rs. 30,000 on a business loan taken from Flight Ltd. in which his sister holds 25% equity shares. Interest payable as per market rate comes to Rs. 10,000. Amount deductible as interest for AY 2023-24 will be:

- (a) 30,000 (b) 10,000  
(c) 20,000 (d) Nil

**M109.** Shubham pays office rent of Rs. 3 lakh to M/s Shekhar & Co., owner of the building. Shekhar, the brother of Shubham, is a partner in this firm with 10% profit share. Market rent for a similar property is Rs. 2 lakh. Amount deductible as rent for AY 2023-24 will be:

- (a) 3 lakh (b) 2 lakh  
(c) 1 lakh (d) As the AO may determine

**M110.** Shyamal pays interest of Rs. 5 lakh for PY 2022-23 on business loan taken from a deposit-taking NBFC in which his wife is a director holding 30% equity shares. Reasonable interest as per market conditions is Rs. 2 lakh. Interest is paid by Shyamal on 1.12.2023, i.e., after due date to furnish return of income for the PY 2022-23. Amount deductible will be:

- (a) 5 lakh for PY 2023-24 (b) 2 lakh for PY 2022-23  
(c) 2 lakh for PY 2023-24 (d) 5 lakh for PY 2022-23

**M111.** Shaily makes various business payments during PY 2022-23. Which of these is not allowed as deduction for AY 2023-24?

- (a) Rs. 30,000 paid in cash to Mr. X for purchase of inventory, paid in three equal instalments on successive days (b) Rs. 10,001 paid by uncrossed cheque to Mr. Z on 10.6.2022 as interest on business loan  
(c) Rs. 25,000 paid by crossed cheque to Mr. G on 4.5.2022 for transporting goods from factory to customers (d) Rs. 9,000 each, paid by bearer cheque to Mr. P and Mr. Q on 1.4.2022 for purchase of raw material

**M112.** Which of the following payments made by Gautam during PY 2022-23 is allowable as deduction in entirety?

- (a) Rs. 1 lakh paid by NEFT on 10.6.2022 for purchase of plant and machinery (b) Loan of Rs. 30,000 given in cash to a colleague on 15.4.2022  
(c) Personal loan of Rs. 50,000 taken from a friend, repaid on 5.5.2022 along with interest of Rs.11,000, in cash. (d) Rs. 30,000 payable to Mr. G for supply of office stationery adjusted in accounts against Rs. 50,000 receivable from him.

**M113.** Mr. Garg made the following payments during the course of PY 2022-23, each on a particular day to one party: Rs. 20,000 paid in cash to Railways for transportation of goods, Rs. 15,000 paid in cash to a farmer for purchase of grains, Rs. 20,000 paid by uncrossed cheque to a wholesale trader for purchase of wheat, Rs. 40,000 paid by bearer cheque as gratuity to a retiring employee. What is the amount of deduction available to Mr. Garg for AY 2023-24?

- (a) 75,000 (b) 95,000  
(c) 60,000 (d) 55,000

**M114.** Mr. Dhiman booked expenditure of Rs. 30,000 towards purchase cost of raw material on 15.12.2021 and claimed deduction during that PY on due basis. Payment of this amount was made on 15.12.2022 to the extent of 40% in cash and the rest by Bank ECS. What will be the tax implication of this transaction for AY 2023-24?

- (a) No implication (b) Rs. 30,000 is taxable  
(c) Rs. 12,000 is taxable (d) Rs. 18,000 is taxable

**M115.** Raju, following mercantile system of accounting, incurred an expenditure of Rs. 45,000 during PY 2021-22 which was allowed as deduction on due basis. He made payment of this amount on 15.6.2022 by way of a crossed cheque as '& Co.'. Rs. 45,000 will be taxable as business income for AY 2023-24.

- (a) Yes (b) No

**M116.** Employer's contribution to provident/superannuation/gratuity fund is allowed as deduction in computing income under the head PGBP provided it has been paid:

- (a) Before end of that PY (b) On or before the due date by which employer is required to credit employee's contribution to the employee's account in the relevant fund

- (c) On or before due date for furnishing return of income u/s 139(1) for that PY (d) Before end of the relevant AY

**M117.** Deduction of interest payable during PY 2022-23 on term loan taken from a scheduled bank is allowable u/s 36(1)(iii) in AY 2023-24:

- (a) If it is paid up to 31.3.2023 even if evidence of payment is not furnished along with return (b) If it is paid up to due date of furnishing return for PY 2022-23 if evidence of payment is furnished along with return  
(c) Irrespective of when it is actually paid (d) A or B

**M118.** Jagriti Pvt. Ltd. took a term loan from Bank of Baroda in respect of which the outstanding interest of Rs. 10 lakh was converted into a Funded Interest Term Loan (FITL) to be paid in five equal annual instalments starting from 20.12.2022. The company paid all the instalments on time. Interest deductible for PY 2022-23 is:

- (a) 2 lakh (b) 4 lakh  
(c) Nil (d) 10 lakh

**M119.** GST payable by Rashmi for the month of March 2023 became payable under the GST law in April 2023. Rashmi paid this amount on 15.9.2023, i.e., before the due date to file return of income of 31.10.2023 for PY 2022-23 but within the FY 2023-24. In which year is GST deductible?

- (a) PY 2022-23 (b) PY 2023-24  
(c) Not deductible in any PY (d) PY 2024-25

**M120.** M/s Jagriti Group, a proprietorship firm following cash system of accounting, incurred the following expenditure during the PY 2022-23: (A) Customs duty of AY 2023-24 Rs. 75,000 - paid on 15.5.2023. (B) Income tax paid for AY 2022-23 Rs. 84,000 – paid on 16.6.2022. Amount of expenditure allowed for AY 2023-24 is:

- (a) 1,59,000 (b) 75,000  
(c) Nil (d) 84,000

#### SPECIAL PROVISIONS

**M121.** Any amount recovered against a deduction already made in an earlier PY is:

- (a) Not taxable on recovery (b) Taxable in the PY in which it is recovered  
(c) Taxable in the PY in which it was deducted (d) Taxable in the PY as determined by the AO

**M122.** Mr. P received refund of GST on 20.12.2022 amounting to Rs. 20,000 in respect of payment of Rs. 1 lakh made during PY 2019-20 and allowed as deduction in that year. Rs. 20,000 will be taxable during AY 2023-24.

- (a) True (b) False

**M123.** Mr. J paid Rs. 10,000 on 15.4.2022 in full and final settlement of a disputed bill of Rs. 50,000 for purchase of office supplies made on 10.2.2022 on account of defect in the products. Mr. J had claimed Rs. 50,000 as deduction for PY 2021-22. Nothing will be taxable on this count for the AY 2023-24.

- (a) True (b) False

**M124.** Mr. R purchased raw material from Mr. S during PY 2020-21 for Rs. 1 lakh but did not make any payment because of a dispute around the terms of the contract, though he claimed the amount as deduction in computing business income of that year. Seeing no resolution to the dispute, Mr. R unilaterally wrote off Rs. 70,000 in the books of account and paid the balance on 10.1.2023, though Mr. S continued to contest the dispute. What will be the tax implications for AY 2023-24?

- (a) 70,000 is taxable (b) 30,000 is taxable  
(c) 30,000 is deductible (d) Nothing is taxable since amount is still disputed

**M125.** Rise Pvt. Ltd., carrying businesses in Units A and B, made payment of Rs. 1 lakh during PY 2020-21 towards an expenditure incurred in Unit A and claimed deduction in that year. Unit A ceased to exist in PY 2021-22. Rs. 40,000 were refunded during PY 2022-23 in respect of such payment. Rs. 40,000 will be taxable for AY 2023-24 where:

- (a) It is received by Unit B of Rise Pvt. Ltd. (b) It is received by Shine Ltd. with whom Unit A got amalgamated  
(c) It is received by Mr. Rise, erstwhile CEO of Rise Pvt. Ltd., where Unit B also ceases to exist in PY 2021-22 and the company is dissolved. (d) Any of the aforesaid situations

**M126.** If any business or profession is discontinued in any year, any sum received after the discontinuance cannot be deemed to be the income of recipient in the year of receipt.

- (a) True (b) False

**M127.** In case of sale of land or building, being stock-in-trade, SDV of the property can be substituted in place of consideration if:

- (a) SDV is not more than 110% of consideration (b) SDV is more than 110% of consideration

- (c) SDV is not less than 110% of consideration (d) Cannot be substituted

**M128.** Housing Pvt. Ltd., a real estate developer, sold a building on 16.9.2022 for Rs. 50 lakh costing Rs. 20 lakh. Stamp duty value on the date of agreement to sell (1.4.2022) was Rs. 54 lakh while it was Rs. 60 lakh on 16.9.2022 when the transfer was registered. Rs. 5 lakh was received from the buyer on 15.3.2022 through a bearer cheque. What will be the profit chargeable to tax for AY 2023-24?

- (a) 30 lakh (b) 40 lakh  
(c) 34 lakh (d) 25 lakh

**M129.** DLF builders sold a plot of land on 15.9.2022 for Rs. 50 lakh. AO substituted the value of consideration with the SDV being Rs. 75 lakh. DLF claimed that the SDV was much more than the fair market value of Rs. 60 lakh. The case was referred to DVO who determined the value of the plot at Rs. 65 lakh. What value of consideration will be taken for computing profit from the sale of plot?

- (a) 50 lakh (b) 75 lakh  
(c) 60 lakh (d) 65 lakh

### COMPLIANCE

**M130.** Which of the following is not a specified profession u/s 44AA?

- (a) Chartered Accountant (b) Dentist  
(c) Sports person (d) Film actor

**M131.** Who is required to keep and maintain books prescribed by Rule 6F?

- (a) Ms. X, a doctor having gross receipts of Rs. 1.2 lakh and income from profession of Rs. 1 lakh in all the three preceding PYs (b) Mr. Y, an engineer having gross receipts of Rs. 2 lakh and income from profession of Rs. 1.5 lakh in all the three preceding PYs  
(c) Ms. Z, a retailer having gross receipts of Rs. 3 lakh and income from business of Rs. 2 lakh in all the three preceding PYs (d) Mr. U, a gym trainer having gross receipts of Rs. 5 lakh and income from profession of Rs. 1 lakh in all the three preceding PYs

**M132.** Who is not required to keep and maintain any books of accounts u/s 44AA?

- (a) Chartered Accountant having income from profession of 2 lakh in all the three preceding PYs (b) PQR Ltd. having loss from business and turnover of Rs. 15 lakh in all the three preceding PYs  
(c) Individual wholesale trader having income from business of 2 lakh and turnover of Rs. 10 lakh in all the three preceding PYs (d) Professional author having income from profession of 3 lakh and gross receipts of 5 lakh in all the three preceding PYs

**M133.** Kamya, a lawyer, has started her practice on 10.12.2022 and she estimates that the gross receipts for PY 2022-23 will be Rs. 1 lakh. Advise her on the books of account that she needs to keep and maintain for the PY 2022-23.

- (a) As prescribed by Rule 6F (b) No books need to be kept and maintained  
(c) Such books as will enable the AO to compute her total income (d) Such books as she may decide in her discretion

**M134.** M/s Rohan & Co, a partnership firm, carries on real estate business. It's income from business for the PYs 2019-20 to 2021-22 is a loss of Rs. 3 lakh, loss of Rs. 1 lakh and income of Rs. 1 lakh, respectively. Its turnover for these PYs has been Rs. 4 lakh, Rs. 6 lakh and Rs. 11 lakh, respectively. Advise the firm on the books of account it needs to maintain for PY 2022-23.

- (a) As prescribed by Rule 6F (b) No books need to be maintained  
(c) Such books as will enable the AO to compute the total income (d) Such books as the firm may decide in its discretion

**M135.** A person carrying on a profession is required to get his accounts audited u/s 44AB if his gross receipts:

- (a) Exceed Rs. 1 crore during the current PY (b) Exceed Rs. 50 lakh in all the three preceding PYs  
(c) Exceed Rs. 50 lakh during the current PY (d) Exceeds Rs. 1 crore in the current PY if cash transactions are not more than 5%

**M136.** A business is required to get its accounts audited u/s 44AB if sales, turnover or gross receipts in business:

- (a) Exceed Rs. 1 crore for all the three preceding PYs irrespective of the quantum of transactions in cash mode or non-cash mode (b) Exceed Rs. 1 crore for the current PY irrespective of the quantum of transactions in cash mode or non-cash mode  
(c) Exceed Rs. 1 crore for the current PY if receipts and payments in cash or by non-A/c payee cheque/bank-draft do not exceed 5% of the respective totals (d) Exceed Rs. 10 crore for the current PY if receipts and payments in cash or by non-A/c payee cheque/bank-draft do not exceed 5% of the respective totals

**M137.** Tax audit is not required if:

- (a) Sales, turnover or gross receipts of business is up to Rs. 1 crore (b) Gross receipts of profession is up to Rs. 50 lakh

- (c) Sales, turnover or gross receipts of business is up to Rs. 10 crore where receipts and payments in cash or by non-A/c payee cheque/bank-draft do not exceed 5% of the respective totals
- (d) All the above

**M138.** Mr. Merchant, carrying on transport business, has clocked a turnover of Rs. 3 crore for PY 2022-23. His receipts by way of cash and non-A/c payee cheque/bank-draft are 3% of total receipts while his cash payments are 6% of total payments during the PY. Is he liable to tax audit u/s 44AB for the PY 2022-23?

- (a) Yes (b) No

**M139.** Mr. Dude, carrying on profession of a sports coach, has clocked gross receipts of Rs. 55 lakh for PY 2022-23. His receipts by way of cash and non-A/c payee cheque/bank-draft are 2% of total receipts while his payments by way of cash and non-A/c payee cheque/bank-draft are 1% of total payments during the PY. Is he liable to tax audit u/s 44AB for the said PY?

- (a) Yes (b) No

**M140.** If due date to furnish return of income u/s 139(1) for the PY 2022-23 is 31 October 2023, due date to get accounts audited and furnish the tax audit report u/s 44AB for the said PY is:

- (a) 1 October 2023 (b) 30 September 2023  
(c) 31 October 2023 (d) After 31 October 2023

#### PRESUMPTIVE INCOME FOR SMALL ENTERPRISES

**M141.** A resident individual, carrying on trading business, can claim presumptive income u/s 44AD only if:

- (a) All transactions are through banking channels and turnover or gross receipts for the PY is more than Rs. 2 crore
- (b) Irrespective of the mode of transactions, the turnover or gross receipts for the PY is up to Rs. 2 crore and deduction is claimed u/s 10AA
- (c) Irrespective of the mode of transactions, the turnover or gross receipts for the PY is up to Rs. 2 crore and no deduction is claimed u/s 10AA or Chapter VIA-C
- (d) All transactions are through banking channels and turnover or gross receipts for the PY is up to Rs. 2 crore

**M142.** Where the total turnover of an assessee, eligible for presumptive taxation u/s 44AD, is received entirely by account payee cheque during the PY 2022-23, specified rate of presumptive business income is:

- (a) 5% of total turnover (b) 6% of total turnover  
(c) 7% of total turnover (d) 8% of total turnover

**M143.** Raj is a resident and ordinarily resident for PY 2021-22 and resident but not ordinarily resident for PY 2022-23. He carries on the business of trading in food grains and has clocked turnover of Rs. 1 crore during the PY 2022-23, 10% of which is received in cash and the balance through banking channels within the PY itself. What would be taken to be the profits and gains for the AY 2023-24 u/s 44AD?

- (a) 6,00,000 (b) Computed by deducting expenses from receipts  
(c) 8,00,000 (d) 6,20,000

**M144.** M/s PQR, an eligible assessee following mercantile system of accounting and carrying on eligible business u/s 44AD, provides the following details: Total turnover for FY 2022-23 is Rs. 130 lakh. Out of this, Rs. 25 lakh is received by A/c payee cheque during FY 2022-23; Rs. 50 lakh is received by cash during FY 2022-23; Rs. 25 lakh is received by A/c payee bank draft before due date of filing return and Rs. 30 lakh is not received till due date of filing of return. Compute the amount of deemed profits of M/s PQR u/s 44AD(1) for AY 2023-24.

- (a) Rs. 10.4 lakh (b) Rs. 7 lakh  
(c) Rs. 5.5 lakh (d) Rs. 9.4 lakh

**M145.** Srishti, a resident and a Chartered Accountant, has gross receipts for the PY 2019-20 to 2022-23 of Rs. 60 lakh, Rs. 70 lakh, Rs. 55 lakh and Rs. 40 lakh, respectively. 20% of her receipts and 20% of her payments are in cash while the balance is through account payee cheque or NEFT. Can she opt for any presumptive income scheme under the Act? If yes, what amount would be deemed as profits and gains? Whether she would need to comply with sections 44AA and 44AB for PY 2022-23 in such case?

- (a) Cannot opt for 44ADA; 30 lakh; 44AA/44AB needed (b) Can opt for 44ADA; 20 lakh; No 44AA/44AB  
(c) Can opt for 44ADA; 30 lakh; No 44AA/44AB (d) Can opt for 44ADA; 20 lakh; 44AA/44AB needed

**M146.** Which of the following is not an implication if the assessee opts for section 44AD, 44ADA or 44AE?

- (a) Profits and gains are computed at a standard rate (b) Depreciation on assets is not deducted from the presumptive income  
(c) Requirement u/s 44AA and 44AB does not apply (d) Income lower than presumptive income, cannot be declared

**M147.** U/s 44AE, presumptive taxation is applicable at a particular rate provided the assessee is the owner of a maximum of certain number of goods carriages. The rate per month or part of the month relevant for AY 2023-24 and the maximum number specified under the section are:

- |  |   |
|--|---|
| (a) 7,500 for each goods carriage in case of assessee owning not more than 10 goods carriages at any time during the year  | (b) 7,500 for each goods carriage in case of assessee owning less than 10 goods carriages at any time during the year   |
| (c) 1,000 per ton of gross vehicle weight per month or part of a month for goods carriage in case of assessee owning not more than 10 goods carriages at the end of PY | (d) 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, for per month or part of a month for a heavy goods carriage and 7,500 per month or part of a month for other goods carriages in case of assessee owning not more than 10 goods carriages at any time during PY |

**M148** M/s Gopal & Sons is engaged in plying of goods carriages and owns 5 such carriages during the PY 2022-23. He has incurred losses in the business and, hence, does not wish to opt for presumptive taxation u/s 44AE. What are the implications of this decision?

- |   |  |
|---|--|
| (a) Declare loss and comply with 44AA/44AB            | (b) Need to comply with 44AE without need to comply with 44AA/44AB |
| (c) Declare loss but no need to comply with 44AA/44AB | (d) Need to comply with 44AE plus 44AA/44AB                        |

**M149.** Roxy & Co. is a transporter owning 8 goods carriages as on 1.4.2022 having gross vehicle weight of 10 ton each. On 10.6.2022, he sold one goods carriage. He purchased one goods carriage of 10 ton on 20.7.2022. He has also taken 2 goods carriages on hire purchase, used by him throughout the PY and having gross vehicle weight of 10 ton. His income u/s 44AE for PY 2022-23 would be:

- |               |              |
|---------------|--------------|
| (a) 6,30,000  | (b) 7,20,000 |
| (c) 12,00,000 | (d) 9,00,000 |

## Answer Key for MCQs

M1 D; M2 D; M3 B; M4 B; M5 A; M6 B; M7 B; M8 B; M9 B; M10 B; M11 C; M12 B; M13 B; M14 B; M15 C; M16 B; M17 D; M18 B; M19 A; M20 B; M21 C; M22 D; M23 B; M24 C; M25 A; M26 D; M27 C; M28 D; M29 B; M30 A; M31 A; M32 C; M33 D; M34 C; M35 A; M36 D; M37 A; M38 C; M39 A; M40 D; M41 A; M42 D; M43 A; M44 C; M45 C; M46 C; M47 B; M48 B; M49 A; M50 D; M51 A; M52 A; M53 C; M54 C; M55 D; M56 C; M57 B; M58 A; M59 C; M60 B; M61 B; M62 C; M63 A; M64 B; M65 A; M66 D; M67 C; M68 B; M69 A; M70 D; M71 A; M72 B; M73 D; M74 A; M75 C; M76 D; M77 C; M78 D; M79 A; M80 B; M81 D; M82 B; M83 B; M84 C; M85 D; M86 A; M87 B; M88 D; M89 A; M90 B; M91 C; M92 D; M92a B; M92b B; M93 B; M94 C; M95 D; M96 B; M97 C; M98 A; M99 D; M100 C; M101 D; M102 D; M103 A; M104 D; M105 D; M106 B; M107 A; M108 B; M109 A; M110 C; M111 B; M112 D; M113 A; M114 C; M115 A; M116 C; M117 D; M118 A; M119 A; M120 C; M121 B; M122 A; M123 B; M124 A; M125 D; M126 B; M127 B; M128 B; M129 D; M130 C; M131 B; M132 C; M133 C; M134 C; M135 C; M136 D; M137 D; M138 A; M139 A; M140 B; M141 C; M142 B; M143 D; M144 D; M145 B; M146 D; M147 D; M148 A; M149 D

## Hints to MCQ answers

- M1.** Expenses allowed but not debited to P&L A/c are to be deducted
- M3.** Taxable under the head PGBP u/s 28(ii)
- M4.** Not taxable on principle of mutuality. Section 28(iii) is not applicable as income is not from specific services rendered to members.
- M5.** Taxable u/s 28(iv) – Benefit or perquisite arising from business or profession.
- M6.** Taxable under the head PGBP – non compete fee u/s 28(va)
- M7.** Premium is deductible u/s 37(1); amount received is taxable u/s 28(vi)
- M8.** 1L taxable business income + 1L of expenditure wrongly deducted
- M11.** 10,000 local taxes + 3,00,000 rent + 10,000 premium + 20,000 routine repairs + Nil construction being capital in nature - 50,000 rent on subletting = 2,90,000
- M12.** 1,20,000 rent + 10,000 insurance premium + 20,000 repairs = 1,50,000 — 25% deduction for asset not used in business of Rohit = 1,12,500.
- M14.** Depreciation is allowed to lessor
- M17.** 25% rate for know-how
- M18.** WDV cannot become negative

- M22.** Land NO + Building 50,00,000 + License and know-how 20,00,000 + Machines on lease NO + Books 30,000 + Furniture on rent NO = 70,30,000
- M23.** WDV for depreciation = 5 items for 2,50,000 put to use for  $\geq 180D$  + 2 items NO as not put to use during the PY + 1 item NO as put for personal use + 1 item 50,000 put to use for  $< 180D$  + 1 item not unboxed NO as not put to use (active as well as passive) = 3,00,000. Dep = 50% of 15% of 50,000 + 15% of 2,50,000 = 41,250
- M24.** Full depreciation already allowed till PY 2021-22 @ 25% for 4 years. Total depreciation cannot exceed actual cost.
- M25.** Depreciation = Building @ 10% 3,00,000 + furniture @ 10% 1,00,000 + computer/software/books @ 40% 1,08,000 + intangible @ 25% 1,25,000 = 6,33,000
- M26.** PY 2021-22: Actual cost 1,20,000 – Depreciation 4,500 (50% dep on Machine 1 put to use for  $< 180D$  of 4,500 + Nil Dep on Machine 2 not put to use) = 1,15,500. // PY 2022-23: WDV for depreciation = Opening WDV 1,15,500 – Moneys payable for sale 40,000 = 75,500. Dep @ 15% on 75,500 = 11,325.
- M28.** A: Cash payment is not  $> 10,000$ ; B: UPI is specified mode; C: Cash payment to a person in a day is not  $> 10,000$ ; D: Payment is  $> 10,000$ . Limit of 35,000 for transporters u/s 40A(3) is not applicable for determining actual cost
- M29.** Actual cost = 10,000 for cash (as not  $> 10,000$ ) + NO for bearer cheque (as  $> 10,000$ ) + 20,000 for a/c payee cheque = 30,000. 10% depreciation = 3,000.
- M30.** Actual cost = 45,000 by a/c payee cheque + Cash NO (as  $> 10,000$ ) + Bearer cheque NO (as  $> 10,000$ ) = 45,000.
- M31.** WDV for dep = Opening WDV 3,20,000 + machinery 50,000 (put to use for  $< 180D$ ) – moneys payable on sale 2,00,000 = 1,70,000. Depreciation = 50% of 15% of 50,000 + 15% on balance of 1,20,000 = 21,750
- M32.** Actual cost = 10,00,000 cost + 20,000 interest till date asset is first put to use + 10,000 freight, carriage, unloading (not disallowed as not  $> 10,000$ ) + Installation NO (as cash payment  $> 10,000$ ) + GST with ITC allowed NO – 5,00,000 subsidy to meet the cost of asset – 1,00,000 paid by bearer cheque (as  $> 10,000$ ) = 4,30,000. Dep = 50% of 40% of 4,30,000 as asset is put to use for  $< 180D$  = 86,000.
- M33.** A: Not P&M; B: Road transport vehicle; C: Full cost allowed as deduction; D: Allowed as computer installed in factory.
- M35.** Normal dep = 15% of 3,00,000 = 45,000. Addl dep = 20% on 1,00,000 for machinery C = 20,000. Addl. Dep not allowed on Machine A as it is second-hand and on Machine B as it is installed in office.
- M36.** Additional depreciation = Machine A (remaining 10% from PY 2021-22) 10,000 + Machine B @ 20% 20,000 + Not allowed on furniture and patent = 30,000.
- M37.** Not engaged in manufacture or production.
- M38.** 50% normal dep as put to use for  $< 180D$ ; no addl dep for power undertaking following SLM method.
- M40.** Section 43A is not applicable as entire payment is made upon purchase. Dep for PY 2021-22 = 15% of 7,50,000 = 1,12,500. WDV on 1.4.2022 = 6,37,500. Dep for PY 2022-23 = 15% of 6,37,500 = 95,625.
- M41.** Section 43A applies. // PY 2021-22: Dep = 15% of 7,50,000 = 1,12,500. WDV on 1.4.2022 = 6,37,500. // PY 2022-23: Decrease in liability = Rs. 2 for 7,500 USD = 15,000. Adjusted WDV = 6,37,500 – 15,000 = 6,22,500. Dep = 15% of 6,22,500 = 93,375.
- M42.** Actual cost = Actual cost of building – Depreciation (at the rate in force) that would have been allowable had the building been used for the said purpose since its acquisition. // PY 2020-21: 15,00,000 – 10% = 13,50,000 // PY 2021-22: 13,50,000 – 10% = 12,15,000 // PY 2022-23: Actual cost = 12,15,000. Dep = 10% of 12,15,000 = 1,21,500.
- M43.** Actual cost to Viru = Actual cost to Jay – Dep allowable if asset was the only asset in block. For PY 2020-21: 30,000 – 12,000 (40% dep) = 18,000. For PY 2021-22: 18,000 – 7,200 (40% dep) = 10,800. For 2021-22: Actual cost = 10,800. Dep @ 40% of 10,800 = 4,320
- M44.** Actual cost = Lower of (a) original cost 30,000 – 19,200 dep as if asset was the only asset in block (40% of 30,000 for PY 2020-21 and 40% of 18,000 for PY 2021-22) = 10,800, or (b) price at which reacquired 30,000 = 10,800. Dep @ 40% = 4,320.
- M45.** PY 2021-22: Actual cost 1,00,000 – 15,000 dep = 85,000 closing WDV. Total amount of depreciation is computed as if entire income was business income and deemed to be the depreciation actually allowed. // PY 2022-23: Dep = 15% of 85,000 = 12,750 (before apportionment of composite income).
- M49.** Deduction u/s 35AD = NO for land + 40,00,000 for factory (as cost capitalized on 20.4.2022) + 5,00,000 for second hand imported machine + NO for furniture (as cash payment is  $> 10,000$ ) = 45,00,000. // Depreciation u/s 32 not allowed for expenditure on which deduction u/s 35AD allowed. Also not allowed on land and on furniture (as cash payment is  $> 10,000$ ).
- M50.** Deduction u/s 35AD not available as hotel is not 2 star or above. Normal Dep u/s 32 = 50% of 10% of 5,00,000 (as put to use for  $< 180D$ ) = 25,000.
- M51.** Sum received/receivable is taxable u/s 28(vii) if asset is transferred on which deduction u/s 35AD has been allowed.
- M52.** Deemed business income will arise in PY 2022-23 as asset on which deduction was allowed u/s 35AD is transferred to a non-specified business within 8 years of its acquisition. Deemed business income = 35AD deduction of 50,00,000 – Dep allowable as if no deduction u/s 35AD was allowed (5,00,000 @ 10% for PY 2021-22) = 45,00,000. // Actual cost for depreciation = 50,00,000 actual cost – depreciation allowable had asset been used for such business since its acquisition (5,00,000 @ 10% for PY 2021-22) = 45,00,000. Dep for PY 2022-23 = 10% of 45,00,000 = 4,50,000.
- M53.** Deemed business income does not arise since transfer of asset (on which deduction was allowed u/s 35AD) from specified to non specified business is after 8 years of its acquisition. No depreciation as actual cost is Nil.
- M54.** A: Allowed u/s 36(1)(i); B: Allowed as business loss which is revenue in nature and incidental to carrying on of business; D: Allowed u/s 36(1)(xvi).
- M55.** Eligible expenditure u/s 35D = Market survey 5,00,000 + Feasibility report NO (as concern is unapproved) = 5,00,000. Limit = 5% of cost of project of 80 lakh = 4,00,000. Deduction u/s 35D per year is 4,00,000/5 = 80,000

- M56.** Concern carrying out preparation of feasibility report should be approved.
- M57.** Deduction u/s 35DDA is available to all assesseees.
- M58.** No deduction as 5 instalments are over in PY 2021-22.
- M59.** Only pre-commencement revenue expenditure on salary and materials needs to be certified.
- M61.** Deduction u/s 35 = 20,000 Gyan university + NO for Sudha college (as not notified) + NO for German company (as not registered in India) + 15,000 IIT = 35,000.
- M62.** Deduction u/s 35 = 2,00,000 for pre-commencement revenue expenditure on salary and materials (40% of 5,00,000) + 6,00,000 post-commencement revenue expenditure + NO for land + 10,00,000 for equipment = 18,00,000.
- M64.** Deemed profits u/s 41(3) = Lower of sale proceeds of 1 lakh or deduction u/s 35 of 3 lakh = 1 lakh
- M65.** Not deductible as section 43B is not complied with as loan is taken from bank.
- M66.** Interest till 10.8.2021 of 20,000 is added to actual cost of machine. Out of balance of 30,000, 4,000 is not allowed u/s 43B. Hence, deduction = 26,000.
- M67.** Since wife holds substantial interest in the firm, interest exceeding market rate is disallowed u/s 40A(2); section 43B is not applicable to this case. Deduction = 45,000 for interest to firm (@15%) + 30,000 for trade creditors (section 43B is not applicable) + NO for personal loan = 75,000.
- M68.** Non-generation of income is not a ground to disallow interest. Entire interest is allowed u/s 36(1)(iii). No disallowance u/s 43B as interest is paid by the return due date.
- M69.** Discount = 20,000 bonds @ 50 = 10,00,000. Period of life = 36 months (Oct 22 is taken as 1 month; Oct 25 is ignored); Discount p.m. = 10,00,000 / 36 = 27,778. Discount for PY 2022-23 for 6 month (Oct to Mar) = 1,66,668
- M70.** A: Not compliant with section 43B. B: Not credited to the fund at all. C: Not credited to the fund by the due date as per rules of the fund. D: It is deductible.
- M71.** A: Employer's contribution to AGF and compliant with 43B. B: Not deductible as provision made for gratuity that has not become payable during the PY. C: Not deductible as not compliant with 43B. D: Deduction allowed earlier; not allowed again.
- M74.** U/s 36(1)(ib)
- M75.** Deduction = Health premium of 1,00,000 u/s 36(1)(ib) + Commission NO u/s 36(1)(ii) as paid in guise of dividend + Employer's EPF contribution of 2,00,000 as compliant with 43B + Employee's EPF contribution NO as paid after fund due date as per rules of fund = 3,00,000.
- M78.** Deduction = CTT of 10,000 u/s 36(1)(xvi) + STT NO u/s 36(1)(xv) as shares are not stock-in-trade + Income tax, interest, penalty NO u/s 40(a)(ii) + GST NO as disallowed u/s 43B + compensatory penalty 4,000, rest NO = 14,000.
- M79.** Yes, u/s 36(1)(xv)
- M80.** Refund is not taxable and interest is taxable under the head IFOS.
- M81.** Disallowed for employer u/s 40(a)(v). Exempt for employee u/s 10(10CC).
- M83.** Deduction = Mohit 1,00,000 bad debt u/s 36(1)(vii) + Shobhit 50,000 revenue loss incidental to business deductible u/s 29 on general principles + Friend NO since not related to business = 1,50,000
- M84.** Interest is deductible as bad debt u/s 36(1)(vii). Principal is also deductible u/s 36(1)(vii) since it represents money lent in money lending business.
- M85.** It is a loss of capital nature as it is not on revenue account. Not deductible.
- M86.** Difference = Debt of 1,00,000 – Deduction u/s 36(1)(vii) of 30,000 = 70,000. Deficiency (recovery 20,000 – difference 70,000) is deductible u/s 36(2).
- M87.** Difference = Debt of 1,00,000 – Deduction u/s 36(1)(vii) of 30,000 = 70,000. Excess recovery of 20,000 (90,000 – 70,000) is taxable u/s 41(4) even if business has ceased to exist.
- M89.** Limit u/s 40(b): On first 3 lakh = 2.7 lakh; On next 2 lakh @ 60% = 1.2 lakh = 3.9 lakh. Thus, entire remuneration is deductible.
- M90.** Book profit = 37,00,000 book profit before interest and remuneration – 1,30,000 interest = 35,70,000. Limit of remuneration u/s 40(b) = On first 3,00,000: 2,70,000; On next 32,70,000 @ 60%: 19,62,000 = 22,32,000. Hence, entire remuneration is deductible.
- M91.** Book Profit = 1,00,000 book profit after interest & remuneration + 3,00,000 remuneration = 4,00,000. Limit of remuneration u/s 40(b) = On first 3,00,000: 2,70,000, On next 1,00,000 @ 60%: 60,000 = 3,30,000. PGBP = 1,00,000, since entire interest and remuneration is deductible.
- M92.** Salary allowed to firm u/s 40(b) on 5 lakh book profit = 2.7 lakh + 60% of 2 lakh = 3.9 lakh (1.95 lakh each partner). // Interest allowed to firm @12% on 10 lakh is 1.2 lakh. // Taxable income of Krishna = Salary 1.95 lakh + Profit share exempt u/s 10(2A) = 1.95 lakh. // Taxable income of Balaram = 1.95 lakh salary + 1.2 lakh interest + Profit share exempt u/s 10(2A) = 3.15 lakh.
- M92a.** Book Profit = Net loss (-) 80,000 + 4,50,000 remuneration = 3,70,000. Remuneration limit u/s 40(b) = 2,70,000 + 60% of 70,000 = 3,12,000. 1/3<sup>rd</sup> for B taxable in his hands = 1,04,000.
- M92b.** Interest on capital contribution is paid to Rohit as partner in representative capacity. It is deductible up to 12% of 10 lakh = 1,20,000. Interest on loan is paid to Rohit in his individual capacity. It is not hit by section 40(b) and is deductible @ 15% = 90,000. Total deduction = 2,10,000.
- M94.** Incurred for a purpose which is prohibited by law.
- M95.** Not deductible: A: As penalty is not compensatory in nature. B: Contingent in nature. C: Prohibited by law.
- M96.** Deduction = Interest on bank loan (post 43B disallowance of 1,00,000) 1,00,000 + loan charges 20,000 + advertisement NO as disallowed u/s 37(2B) + Depreciation 40,000 (@ 40% of 1,00,000) = 1,60,000.

- M97.** Deduction = Salary 50,00,000 + Health premium 1,00,000 + Employee's EPF contribution 1,00,000 + Own EPF contribution NO (disallowed u/s 43B) + Gratuity NO (as paid out of AGF, contribution to which would already have been allowed as deduction) + Tax on salary is not a separate expenditure; already deducted as part of salary = 52,00,000
- M98.** Deduction = CSR NO (as disallowed) + Embezzlement loss deductible u/s 29 on general principles 1,00,000 + Donation for scientific research not allowed u/s 35 as program not approved NO + Interest 50,000 allowed u/s 37(1) = 1,50,000.
- M99.** Deduction = Advertisement & publicity 20,000 + Celebrations 10,000 + Training 20,000 + Professional tax 2,500 + Income tax disallowed NO + Last year expenditure not allowed NO = 52,500.
- M100.** Disallowance is made in the PY of incurrence of expenditure but disallowance is reversed in the PY in which payee furnishes return.
- M102.** Tax has been deducted in that PY and paid by the due date to furnish return of that PY.
- M103.** 30% is disallowed for PY 2022-23 u/s 40(a)(ia) as tax has not been deducted. It is allowed in PY 2023-24, i.e., PY in which tax is paid.
- M104.** TDS is deducted in PY 2022-23 but paid after return due date. Hence, 30% is disallowed in PY 2022-23 but allowed in PY 2023-24 in which tax is paid.
- M105.** 30% is allowed u/s 40(a)(ia) for AY 2024-25 in which return is furnished by Z Ltd. (PY 2023-24). Thus, for AY 2023-24, 70% is allowed.
- M106.** No disallowance u/s 40(a)(ia) as tax is not deductible at source.
- M107.** U/s 40(a)(iii).
- M108.** Sister is relative and has substantial interest in Flight Ltd. as she is owner of  $\geq 20\%$  equity shares. Flight Ltd. is related party for Manas. Rs. 20,000 of excess will be disallowed u/s 40A(2)..
- M109.** Shekhar is a relative but he does not hold substantial interest in the firm as he is entitled to  $< 20\%$  profit share. 40A(2) not applicable. No disallowance.
- M110.** Wife is relative with substantial interest in NBFC as she holds  $\geq 20\%$  equity shares. NBFC is a related party. 3 lakh of excess is disallowed u/s 40A(2). Balance 2 lakh is deductible in the PY of payment u/s 43B as it is paid to a deposit-taking NBFC after due date of furnishing return.
- M111.** A & D: Payments to a person in a day by non-specified mode is not  $> 10,000$ . B: Payment to a person in a day by non-specified mode is  $> 10,000$ . Disallowed. C: Payment is by specified mode. Not disallowed.
- M112.** A: Depreciation will be allowed. B: Loan is not an expenditure. C: Repayment of loan is not an expenditure. D: Book adjustment is not disallowed u/s 40A(3).
- M113.** Deduction = Railways 20,000 (payment to Government is covered by Rule 6DD) + Farmer 15,000 (covered by Rule 6DD) + Wheat trader NO (not covered by Rule 6DD as he is not a cultivator, grower or producer) + Gratuity 40,000 (terminal benefit  $\leq 50,000$  covered by Rule 6DD) = 75,000.
- M114.** 12,000 in cash is taxable as business income u/s 40A(3) as it is made to a person in a day by non-specified mode being  $> 10,000$ .
- M115.** Deemed business income u/s 40A(3) as payment is made to a person in a day by non-specified mode being  $> 10,000$ .
- M118.** Interest is deductible on actual payment in terms of section 43B. Thus, 2 lakh being first instalment is deductible.
- M119.** Liability is incurred in PY 2022-23 though statutorily payable in FY 2023-24. Deductible in PY 2022-23 as paid by return due date.
- M120.** Customs duty – Not an expense of PY 2022-23 as paid in PY 2023-24. Income tax is not allowed u/s 40(a)(ii).
- M121.** Taxable as deemed profits u/s 41(1) in the PY of recovery
- M122.** Taxable as deemed profits u/s 41(1) in the PY of recovery
- M123.** 40,000 will be taxable u/s 41(1) as deemed profits for PY 2022-23
- M124.** Remission or cessation of liability by a unilateral act of writing off such liability will be taxable as deemed profits u/s 41(1).
- M125.** A: Taxable u/s 41(1) even if business for which deduction was made does not exist. // B: Taxable u/s 41(1) in hands of successor. // C: Taxable u/s 176 in the hands of recipient.
- M126.** Such sum is taxable u/s 176 in the hands of recipient in the year of receipt.
- M128.** SDV of 60 lakh is taken as full value of consideration u/s 43CA as it is  $> 110\%$  of 50 lakh. SDV on date of agreement is not taken as down payment is not made by a specified mode. Profit = 60 – 20 = 40 lakh.
- M129.** DVO valuation will be taken u/s 43CA as it is  $\leq$  SDV.
- M131.** Engineer, being a specified profession, has gross receipts of  $> 1.5$  lakh in all 3 preceding PYs.
- M132.** Wholesale trader is not having income from business of  $> 2.5$  lakh or turnover of  $> 25$  lakh in any one of 3 preceding PYs.
- M133.** Since gross receipts will likely not exceed 1.5 lakh for PY 2022-23, she needs to maintain such books as will enable the AO to compute her total income.
- M134.** Turnover is  $> 10$  lakh in any one of the 3 preceding PYs. Hence, the firm needs to maintain such books as will enable the AO to compute its total income.
- M138.** Cash payment is  $> 5\%$  of total payments. Limit of 1 crore of S/TO/GR applies. Tax audit is required as turnover exceeds this limit.
- M139.** Gross receipts are  $> 50$  lakh. Hence, tax audit is required.
- M143.** 8% of 10 lakh + 6% of 90L = 6,20,000
- M144.** 6% of 50 lakh (received by a/c payee cheque/draft: 25 lakh during the PY + 25 lakh before due date of filing return) + 8% of 80 lakh = 9,40,000
- M145.** 44ADA applies as gross receipts is not  $> 50$  lakh for PY 2022-23. Presumptive income = 50% of 40 lakh. Not required to comply with sections 44AA/44AB.
- M149.** Carriages are not heavy goods vehicles as gross vehicle weight is not  $> 12$  ton. 9 carriages for 12 months; 1 carriage for 3 months; 1 carriage for 9 months. All @ 7,500 p.m. per carriage = 8,10,000 + 22,500 + 67,500 = 9,00,000





## 8

## Capital Gains

## Build Your Confidence (BYC)

## CHARGEABILITY

**B1-14. CAPITAL ASSET** – Examine whether the following are capital assets.

#	Asset
1	Furniture and fixtures in office
2	Raw material used to manufacture goods
3	Building held as stock-in-trade by a real estate dealer
4	House let out on rent by a lawyer
5	Flat owned by a doctor but lying vacant
6	Finished goods for sale
7	Laptop for personal use
8	Precious work of art put up at residence
9	Gold jewellery studded with precious stones
10	Mobile phone for personal use of assessee
11	Television, household appliances and furniture at home used by the family members of assessee dependent on him
12	Copyright held by an author of books
13	Barren land in a rural area in Uttar Pradesh
14	Agricultural farm in a rural area of Nepal

■ Answer: 1. Yes - Property of any kind; 2. No - Raw material held for business; 3. No - Stock-in-trade held for business; 4. Yes - Not a personal effect as not a movable property; 5. Yes - Not a personal effect as not a movable property; 6. No - Stock-in-trade held for business; 7. No - Personal effect; 8. Yes - Not a personal effect as it is work of art; 9. Yes - Not a personal effect as it is jewellery; 10. No - Personal effect; 11. No - Personal effect as used by members of family dependent on assessee; 12. Yes - Property of any kind; 13. Yes - Not agricultural land; 14. Yes - Rural agricultural land is not in India

**B15-23. CAPITAL ASSET – AGRICULTURAL LAND** – Rajesh carries out agricultural activities on a plot of land. Determine whether capital gains will arise on sale of land in the following cases.

#	Distance (aerial) of land from local limits of municipality or cantonment board	Population of area per last census
1	0	8,000
2	2	10,000
3	1.5	12,000
4	2.5	20,000
5	0	80,000
6	5.5	1,25,000
7	10	9,00,000
8	7.5	15,00,000
9	8.5	25,00,000

#	Rural agricultural land in India	Capital gain
1	Yes, as it is not in an urban area	No as it is not a capital asset
2	Yes, as it is beyond the local limits	No as it is not a capital asset
3	No, as it is within 2 km from local limits	Yes as it is a capital asset
4	Yes, as it is beyond 2 km from local limits	No as it is not a capital asset
5	No, as it is within 2 km from local limits	Yes as it is a capital asset

6	No, as it is within 6 km from local limits	Yes as it is a capital asset
7	Yes, as it is beyond 6 km from local limits	No as it is not a capital asset
8	No, as it is within 8 km from local limits	Yes as it is a capital asset
9	Yes, as it is beyond 8 km from local limits	No as it is not a capital asset

**B24-31. TRANSFER** – Gopi undertook the following transactions during the PY. Determine whether he would be liable to capital gain on these transactions?

#	Case
1	He sold his residential house to his colleague for Rs. 50 lakh
2	He transferred a machine in return for another machine
3	He surrendered tenancy rights held by him for Rs. 10 lakh
4	He received Rs. 5 lakh on redemption of Zero Coupon Bonds of BCD Ltd.
5	Land owned by him was acquired by the UP Government for construction of expressway
6	He brought his personal jewellery into his jewellery retail business as stock-in-trade
7	He gave possession of a house to Mr. Z in terms of a written agreement to sell pursuant to which Mr. Z paid the entire sale consideration, although the transfer was pending registration in favor of Mr. Z.
8	He let out a shop to Mr. X for Rs. 20,000 p.m.

■ Answer: Yes for all (except #8). 1. Sale of capital asset; 2. Exchange of capital asset; 3. Relinquishment of capital asset; 4. Redemption of Zero Coupon Bond; 5. Compulsory acquisition of capital asset; 6. Conversion of capital asset to stock-in-trade; 7. Transfer allowing possession of immovable property in part performance of contract u/s 53A of TOP Act; 8. Not a transfer as it letting out

**B32-41. TYPE OF CAPITAL ASSET** – Determine whether capital gain arising in the following cases would be STCG or LTCG for AY 2023-24?

#	Case
1	Z purchases a house property on 1.4.2021 and sells on 15.10.2022
2	Z purchases equity shares of Reliance Ltd, listed on BSE, on 1.4.2021 and sells on 15.10.2022
3	Z purchases units of Axis Equity Fund, which invests 85% of its proceeds in listed equity shares of Indian companies, on 1.4.2020 and sells on 15.10.2022
4	Z purchases units of Reliance Equity Fund, which invests 25% of its proceeds in listed equity shares of Indian companies, on 1.4.2020 and sells on 15.10.2022
5	Z purchases gold coins on 1.4.2019 and sells them on 15.10.2022
6	Z purchases shares of PQR Pvt. Ltd., an unlisted company, on 1.4.2020 and sells on 15.10.2022
7	Z purchases shares of Google, listed on NYSE in the USA, on 1.4.2021 and sells on 15.10.2022
8	Z purchases debentures (not listed) of ABC Ltd on 1.4.2021 and sells on 15.10.2022
9	Z purchases unquoted units of the Unit Trust of India on 1.4.2021 and sells on 15.10.2022
10	Z purchases Zero Coupon Bonds of an eligible corporation on 1.4.2021 which were redeemed after a period of 18 months.

#	Nature of capital gain
1	STCG as POH is not > 24 months
2	LTCG as POH is > 12 months
3	LTCG as POH is > 12 months. Fund is equity oriented fund as ≥ 65% proceeds are invested in equity shares of listed domestic companies.
4	STCG as POH is not > 36 months. Fund is debt oriented fund as < 65% proceeds are invested in equity shares of listed domestic companies.
5	LTCG as POH is > 36 months
6	LTCG as POH is > 24 months
7	STCG as POH is not > 24 months
8	STCG as POH is not > 36 months
9	LTCG as POH is > 12 months
10	LTCG as POH is > 12 months

**B42. COA, COI** – Determine the cost of acquisition and cost of improvement that will be taken into account in computing capital gain on transfer of building by Akshay on 15.7.2022, based on the following particulars. Building was purchased on 15.12.1999.

Particulars	Rs.
Cost paid to seller on purchase	10,00,000
Brokerage paid to agent @ 1% on purchase	10,000
Registration charges @ 5% on purchase	50,000
Fair market value on 1.4.2001	15,00,000
Stamp duty value on 1.4.2001	12,00,000
Construction of second floor on 1.3.2000	1,50,000
Construction of third floor on 15.8.2010	5,00,000
Routing repair and painting work on 15.9.2015	1,00,000

■  
Computation of cost of acquisition and cost of improvement

Particulars	COA	COI
Cost paid to seller on purchase	10,00,000	
Brokerage paid to agent @ 1%	10,000	
Registration charges @ 5%	50,000	
	10,60,000	
COA = Higher of 10,60,000 (cost) or 12,00,000 (FMV on 1.4.2001 which can't exceed SDV on this date)	12,00,000	
Construction of second floor on 1.3.2000: Not a part of COI as it is incurred before 1.4.2001		-
Construction of third floor on 15.8.2010		5,00,000
Routing repair and painting work on 15.9.2015: Not a part of COI as not capital in nature		-
		5,00,000

**B43-45. INDEXATION** – Compute the capital gain arising in the hands of Samuel on sale of following capital assets on 1.9.2022 in the following situations.

Particulars	A	B	C
Capital asset	Gold bars	Land	House
Date of acquisition	1.5.2021	15.9.2003	12.7.1999
Full value of consideration	5,00,000	50,00,000	50,00,000
Expenditure incurred in connection with transfer	10,000	2%	2%
Purchase price	5,00,000	10,00,000	10,00,000
Fair market value on 1 April 2001	-	9,50,000	12,50,000
Stamp duty value on 1 April 2001	-	9,40,000	12,00,000
Cost of improvement incurred on 1.4.2000	-	-	1,00,000
Cost of improvement incurred on 1.12.2010	-	1,00,000	-
Cost of improvement incurred on 1.6.2021	-	-	1,00,000

■  
Computation of capital gain in the hands of Samuel for PY 2022-23

Particulars	A	B	C
Type of capital gain (POH is not > 36 months for Case A; it is > 24 months for Case B & C)	STCG	LTCCG	LTCCG
Full value of consideration	5,00,000	50,00,000	50,00,000
Less: Expenditure incurred wholly and exclusively in connection with transfer	(10,000)	(1,00,000)	(1,00,000)
Net consideration	4,90,000	49,00,000	49,00,000
Less: Cost of acquisition	(5,00,000)	-	-
Less: Cost of improvement	-	-	-
Less: Indexed cost of acquisition (Note 1)	-	(30,36,697)	(39,72,000)
Less: Indexed cost of improvement (Note 2)	-	(1,98,204)	(1,04,416)
<b>Capital gain (short-term)</b>	<b>(10,000)</b>	-	-
<b>Capital gain (long-term)</b>	-	<b>16,65,099</b>	<b>8,23,584</b>

**Note 1:**

Indexed cost of acquisition	B	C
Cost of acquisition	10,00,000	12,00,000 (Higher of 10 lakh (cost) or 12 lakh (FMV on 1.4.2001 which can't exceed SDV on this date))

CII of year of transfer	331	331
CII of year of acquisition or 2001-02, whichever is later	109	100
Indexed cost of acquisition	$10,00,000 \times (331/109) = 30,36,697$	$12,00,000 \times (331/100) = 39,72,000$

**Note 2:**

Indexed cost of improvement	B	C
Cost of improvement before 1.4.2001	-	Ignore
Cost of improvement on 1.12.2010	1,00,000	-
Cost of improvement on 1.6.2021	-	1,00,000
• CII of year of transfer	331	331
• CII of year of improvement	167	317
• Indexed cost of improvement	$1,00,000 \times (331/167) = 1,98,204$	$1,00,000 \times (331/317) = 1,04,416$

**B46. Section 51** – Sunny owns a house property which he purchased on 15.10.2005 for Rs. 10 lakh. He entered into an agreement with Johnny on 15.10.2010 to sell the property for Rs. 30 lakh for which he received 10% advance (the balance was to be paid within 30 days). On failure of Johnny to pay the balance, Sunny forfeited the advance. He subsequently entered into an agreement with Ronny on 15.10.2015 to sell the property for Rs. 40 lakh for which he received 10% advance (the balance was to be paid within 15 days). On failure of Ronny to pay the balance, Sunny forfeited the advance. He finally sold the property to Bonny on 15.10.2022 for Rs. 50 lakh (brokerage paid 1%). Analyze the tax implications of these transactions.

■ AY 2011-12 - Sum of Rs. 3 lakh forfeited: No tax implications at the time of forfeiture in terms of section 51.

AY 2016-17 - Sum of Rs. 4 lakh forfeited: Taxable under the head IFOS u/s 56(2)(ix).

AY 2023-24 – Computation of capital gain on sale of property:

Particulars	Rs.
Full value of consideration	50,00,000
Less: Expenditure in connection with transfer	(50,000)
Net consideration	49,50,000
Less: ICOA = COA × (CII of 2022-23/CII of 2005-06)	(19,80,342)
• COA = 10 lakh cost – Rs. 3 lakh forfeited during PY 2010-11 = 7 lakh	
• ICOA = 7 lakh × (331/117)	
Less: COI	Nil
<b>Long term capital gain</b>	<b>29,69,658</b>

**B47. Section 51 – CA2016(MAY/NOV)** – Suman received an advance of Rs. 3 lakh on 6.6.2022 to transfer his residential house property. Since the transfer was not effected during the previous year due to failure in negotiations, he deducted the advance money forfeited from the cost of acquisition of the property. State with reason whether this receipt is taxable or not.

■ Yes. It is taxable under the head IFOS u/s 56(2)(ix) for AY 2023-24 since amount is forfeited on or after 1.4.2014. It will not be reduced from COA of the capital asset u/s 51.

**B48-50. PREVIOUS OWNER** – Compute capital gain arising in the following situations for AY 2023-24 in the hands of Mrs. Q.

Particulars	A	B	C
Capital asset	Jewellery	Jewellery	Jewellery
Mr. J purchased the asset for	Rs. 1 lakh on 1.1.2021 (FMV Rs. 1.5 lakh on 1.1.2021)	Rs. 1 lakh on 1.1.1979 (FMV Rs. 1.5 lakh on 1.4.2001)	Rs. 1 lakh on 1.1.1979 (FMV Rs. 1.5 lakh on 1.4.2001)
Mr. J incurred cost of improvement for	Rs. 10,000 on 1.6.2021	Rs. 10,000 on 1.1.1990	Rs. 10,000 on 1.1.1990
Mr. J gifted the asset to Mr. K, his son	On 1.9.2021	On 1.1.2005	On 1.1.2005
Mr. K forfeited advance received from Mr. U due to failed negotiation for transfer of asset	-	-	Rs. 50,000 on 1.1.2010
Mr. K gifted the asset to Mrs. Q, his sister	On 1.5.2022	On 1.1.2015	On 1.1.2015
Mrs. Q forfeited advance received from Mr. V due to failed negotiation for transfer of asset	-	-	Rs. 50,000 on 1.1.2018
Mrs. Q incurred cost of improvement for	Rs. 50,000 on 1.9.2022	Rs. 50,000 on 1.9.2022	Rs. 50,000 on 1.9.2022
Mrs. Q sold the asset to Mr. Z for	Rs. 10 lakh on 1.1.2023	Rs. 10 lakh on 1.1.2023	Rs. 10 lakh on 1.1.2023

*Computation of capital gain for AY 2023-24 in the hands of Mrs. Q*

Previous owner in all cases is the last previous owner acquiring the asset otherwise than by a mode u/s 49(1), i.e., Mr. J.

Particulars	A	B	C
Full value of consideration	10,00,000	10,00,000	10,00,000
Less: Expenditure in connection with transfer	Nil	Nil	Nil
Net consideration	10,00,000	10,00,000	10,00,000
Less: COA:			
• Case A: COA of Mr. J	(1,00,000)	-	-
• Case B: ICOA = COA × (CII of 2022-23/CII of 2001-02) = 1.5 lakh (higher of 1 lakh cost or 1.5 lakh FMV on 1.4.2001) × (331/100)	-	(4,96,500)	-
• Case C: Same as Case B. Forfeiture of advance by previous owner is not reduced from COA u/s 51. Forfeiture by Mrs. Q is taxable as IFOS u/s 56(2)(ix) for AY 2018-19 as it is on or after 1.4.2014.	-	-	(4,96,500)
Less: COI:			
Case A: Incurred by Mr. J and Mrs. Q	(60,000)	-	-
Case B & C:	-	(50,000)	(50,000)
• COI for Mr. J = Nil as incurred before 1.4.2001			
• ICOI for Mr. Q = COI × (CII of 2022-23/CII of 2022-23) = 50,000 × (331/331)			
<b>Short term capital gain</b> (as POH is not > 36 months)	<b>8,40,000</b>	-	-
<b>Long term capital gain</b> (as POH is > 36 months)	-	<b>4,53,500</b>	<b>4,53,500</b>

**SPECIAL PROVISION FOR DEPRECIABLE ASSETS**

**B51-54. Section 50** – Shobhit, carrying on a business, furnishes the following particulars in respect of machinery on which he has been claiming depreciation at 15%. Compute the tax implications arising from these details for AY 2023-24.

Particulars	I	II	III	IV
WDV of Block of assets as on 1.4.2022 (comprising Machinery A and B)	10,00,000	10,00,000	10,00,000	10,00,000
Machinery A sold on 15.5.2022	8,00,000	20,00,000	5,00,000	7,00,000
Machinery C purchased on 15.6.2022	2,00,000	2,00,000	-	-
Machinery D purchased on 15.12.2022	4,00,000	4,00,000	4,00,000	4,00,000
Machinery B and D sold on 15.2.2023	-	-	6,00,000	9,00,000

*Computation of depreciation / capital gain*

Particulars	I	II	III	IV
WDV of Block as on 1.4.2022	10,00,000	10,00,000	10,00,000	10,00,000
Add: Actual cost of assets acquired during the PY	6,00,000	6,00,000	4,00,000	4,00,000
Less: Moneys payable for assets sold during the PY	(8,00,000)	(20,00,000)	(11,00,000)	(16,00,000)
WDV as on 31.3.2023 (cannot be negative)	8,00,000	Nil	3,00,000	Nil
<b>Depreciation:</b>				
50% of 15% on 4,00,000 (Machinery D put to use for < 180 days) + 15% on balance of 4,00,000	(90,000)	-	-	-
No depreciation since WDV is nil although Machinery B, C and D exist in the Block. Capital gain will arise.	-	Nil	-	-
No depreciation since block ceases to exist. Capital gain will arise.	-	-	Nil	Nil
Closing WDV as on 31.3.2023	7,10,000	-	-	-
<b>Capital gain:</b>				
Full value of consideration on transfer of asset(s)	-	20,00,000	11,00,000	16,00,000
Less: WDV of the block of assets as on 1.4.2022	-	(10,00,000)	(10,00,000)	(10,00,000)
Less: Actual cost of assets acquired during the PY	-	(6,00,000)	(4,00,000)	(4,00,000)
<b>Short term capital gain (gain or loss)</b>	-	<b>4,00,000</b>	<b>(3,00,000)</b>	<b>2,00,000</b>

**B55. Section 50 – CA2019(MAY)** – Keshav Enterprises, a sole proprietorship, owns four machines, put in use for business in March 2021. The depreciation on these machines is charged @ 15%. The WDV of these machines as on 1 April 2022 was Rs. 7,70,000. Two

of the old machines were sold on 15 July 2022 for Rs. 10,00,000. A second hand plant was bought for Rs. 6,10,000 on 30 December 2022. You are required to:

1. Determine the claim of depreciation for AY 2023-24.
2. Compute the capital gain liable to tax for AY 2023-24.
3. If Keshav Enterprises had sold the two machines in July 2022 for Rs. 15,00,000, will there be any difference in your working?

Q 1 and Q2 - Computation of depreciation and capital gain for AY 2023-24

Particulars	Rs.
WDV of Block as on 1.4.2022	7,70,000
Add: Purchase of second hand machine during the PY (put to use for < 180 days)	6,10,000
	13,80,000
Less: Moneys payable for sale of old machinery during the PY	(10,00,000)
WDV of Block for depreciation	3,80,000
Depreciation = 50% of 15% of 3,80,000 (as second hand machine put to use for < 180 days)	28,500
Capital gain does not arise since block continues to exist and WDV is positive	Nil

Q 3 - Computation of capital gain and depreciation for AY 2023-24

Particulars	Rs.
WDV of Block as on 1.4.2022	7,70,000
Add: Purchase of second hand machine during the PY (put to use for < 180 days)	6,10,000
	13,80,000
Less: Moneys payable for sale of old machinery during the PY	(15,00,000)
WDV of Block for depreciation (cannot be negative)	Nil
<b>Depreciation:</b> No depreciation since WDV is nil although the block continues to exist	Nil
<b>Computation of capital gain:</b>	
Full value of consideration	15,00,000
Less: WDV of Block as on 1.4.2022	(7,70,000)
Less: Actual cost of second hand machine acquired during the PY	(6,10,000)
Short term capital gain	1,20,000

Mistake by students – Wrong computation of depreciation. Not aware that no capital gain will arise if block continues to exist and WDV is not nil.

**SPECIAL PROVISIONS WHERE CAPITAL GAIN IS TAXABLE OTHER THAN IN THE YEAR OF TRANSFER**

**B56. 45(1A)** – Mr. Jain purchased a capital asset on 1.4.2015 for Rs. 10 lakh (not entitled to depreciation). It was destroyed in a fire that occurred on 1.9.2021. He received insurance compensation on 1.5.2022 of Rs. 3 lakh along with a new asset whose fair market value was Rs. 5 lakh. He incurred Rs. 10,000 towards getting the insurance compensation. Compute capital gain chargeable to tax.

Capital gain u/s 45(1A) for AY 2023-24 being the year of receipt of compensation

Particulars	Rs.
Full value of consideration u/s 45(1A) = Value of money + FMV of other assets on the date of receipt	8,00,000
Less: Expenditure on transfer	(10,000)
Net consideration	7,90,000
Less: Indexed cost of acquisition = COA × (CII of 2021-22, i.e., year of destruction/CII of 2015-16) = 10 lakh × (317/254)	(12,48,031)
Long term capital gain (loss)	(4,58,031)

**B57-60. 45(1A)** – Zeeshan carries on retail business. In an earthquake on 10.12.2022, computers used by him in business were damaged and destroyed. The damaged/destroyed computers were taken over by the insurance company which paid compensation to Zeeshan on 10.2.2023. WDV of the block of computers as on 1.4.2022 was Rs. 2,50,000. Zeeshan had purchased a new computer for Rs. 40,000 on 15.11.2022. Determine the tax implications in the following cases:

- A. All the computers were damaged and destroyed and insurance compensation of Rs. 1,50,000 was received.
- B. Some of the computers were damaged and destroyed and insurance compensation of Rs. 1,50,000 was received.
- C. All the computers were damaged and destroyed and insurance compensation of Rs. 3,50,000 was received.
- D. Some of the computers were damaged and destroyed and insurance compensation of Rs. 3,50,000 was received.

■ *Computation of depreciation and capital gain for AY 2023-24*

Depreciation for AY 2023-24	A	B	C	D
WDV of Block as on 1.4.2022	2,50,000	2,50,000	2,50,000	2,50,000
Add: Actual cost of assets acquired during the PY	40,000	40,000	40,000	40,000
Less: Moneys payable (insurance compensation)	(1,50,000)	(1,50,000)	(3,50,000)	(3,50,000)
WDV of Block for depreciation (cannot be negative)	1,40,000	1,40,000	Nil	Nil
Less: Depreciation: No depreciation since the block ceases to exist. Capital gain will arise u/s 50.	Nil	-	Nil	-
Less: Depreciation: Block exists with a positive WDV. Depreciation = 50% of 40% of 40,000 (as asset put to use for < 180D) + 40% of remaining 1,00,000	-	48,000	-	-
Less: Depreciation: No depreciation since WDV is Nil although block continues to exist. Capital gain will arise u/s 50.	-	-	-	Nil
Capital gain for AY 2023-24 u/s 45(1A) as insurance compensation is received in PY 2022-23	A	B	C	D
Full value of consideration u/s 45(1A) = Value of money + FMV of other assets on the date of receipt	1,50,000	-	3,50,000	3,50,000
Less: WDV of block as on 1.4.2022	(2,50,000)	-	(2,50,000)	(2,50,000)
Less: Actual cost of assets acquired during the PY	(40,000)	-	(40,000)	(40,000)
<b>Short term capital gain u/s 50</b>	<b>(1,40,000)</b>	<b>-</b>	<b>60,000</b>	<b>60,000</b>

**B61. 45(2) – CA2012(NOV)** - Discuss the tax implication arising consequent to conversion of a capital asset into stock in trade of business and its subsequent sale. – Refer para 139.1 of Concepts Book

**B62. 45(2) – Rupesh** owned diamond jewellery which he purchased on 12.6.2016 for Rs. 5,00,000. He started jewellery business and converted his jewellery into stock-in-trade of the business on the date of commencement of business. FMV of the jewellery on this date was Rs. 8,00,000. The jewellery was recorded in the books at Rs. 10,00,000. He sold 30% of jewellery on 15.6.2022 for Rs. 3,00,000. Determine the tax treatment of these transactions if:

A. He commenced the business on 10.12.2018.

B. He commenced the business on 10.12.2019.

■ *Tax treatment in the hands of Rupesh for AY 2023-24*

Particulars	A	B
<b>Computation of capital gain u/s 45(2) for PY 2022-23 in which 30% jewellery is sold</b>		
Full value of consideration u/s 45(2) = FMV of jewellery on date of conversion (30% of 8 lakh)	2,40,000	2,40,000
Less: COA = 30% of 5 lakh. POH from 12.6.2016 to 10.12.2018 is not more than 36 months. Short term capital gains arise.	(1,50,000)	
Less: ICOA = COA × (CII of 2019-20, i.e., year of conversion / CII of 2016-17) = 1,50,000 (30% of 5 lakh) × (289/264). POH from 12.6.2016 to 10.12.2019 is > 36 months. Long term capital gains arise.		(1,64,205)
Short term capital gain in Case A. Long term capital gain in Case B	90,000	75,795
<b>Computation of business income for PY 2022-23 in which 30% jewellery is sold</b>		
Sale consideration	3,00,000	3,00,000
Less: FMV of jewellery on date of conversion	(2,40,000)	(2,40,000)
Business income	60,000	60,000

**B63. 45(5) – Jacob** purchased a house property on 1.6.2010 for Rs. 10 lakh. It was acquired by the Central Government on 1.6.2021 which awarded compensation of Rs. 30 lakh out of which Rs. 20 lakh was received on 1.10.2022 and the balance on 1.5.2023. Jacob appealed to the higher authority for enhancement of compensation. The authority passed order on 1.9.2023 enhancing the compensation by Rs. 10 lakh which was received on 20.4.2024. He incurred Rs. 50,000 litigation expenses in this respect. Compute the capital gain chargeable in the hands of Jacob.

■ *Computation of capital gain in the hands of Jacob*

Particulars	Rs.
<b>AY 2023-24 – First receipt of initial compensation in PY 2022-23 (even though received in part)</b>	
Full value of consideration = Whole of initial compensation	30,00,000

Less: Expenditure in connection with transfer	Nil
Net consideration	30,00,000
Less: ICOA = COA × (CII of 2021-22, i.e., year of acquisition / CII of 2010-11) = 10 lakh × (317/167)	(18,98,204)
Less: ICOI	Nil
Long term capital gain	11,01,796
<b>AY 2025-26 – Receipt of enhanced compensation in PY 2024-25</b>	
Full value of consideration = Enhanced compensation	10,00,000
Less: Expenditure in connection with transfer	(50,000)
Net consideration	9,50,000
Less: ICOA/ICOI	Nil
Long term capital gain	9,50,000

**B64. 45(5A)** - Mr. C purchased a plot of land on 10.7.2011 for Rs. 5 lakh (FMV and SDV on 1.4.2001 were Rs. 3 lakh and Rs. 2 lakh, respectively. These were Rs. 4 lakh and 4.5 lakh, respectively on the date of purchase). Mr. C entered into a written agreement with JK Developers on 1.2.2022 for development of a real estate project on such land comprising 10 buildings of equal size. As per the agreement, Mr. C would get 4 buildings plus Rs. 10 lakh as his share in the project. Consequently, Mr. C handed over the possession of the plot of land to JK Developers on 10.3.2022 upon receiving Rs. 10 lakh. The competent authority issued the certificate of completion for the project on 20.10.2022 (SDV of each building was Rs. 6 lakh on this date). Subsequently, Mr. C sold 2 buildings to Mr. D for Rs. 18 lakh on 25.3.2023 (SDV of each building was Rs. 7 lakh on this date) and incurred expenditure of Rs. 40,000 on the transfer. Compute the capital gain arising to Mr. C.

■  
Computation of capital gain for AY 2023-24

Particulars	Rs.
<b>Capital gain u/s 45(5A) – Taxable in PY 2022-23 in which COC is issued</b>	
Full value of consideration = SDV of his share (4 buildings) on the date of issue of COC 24 lakh + Cash 10 lakh	34,00,000
Less: Expenditure in connection with transfer	Nil
Net consideration	34,00,000
Less: ICOA = COA × (CII of 2021-22, i.e., year of handing over possession / CII of 2011-12) = 5 lakh × (317/184)	(8,61,413)
Less: ICOI	Nil
Long term capital gain (as POH is > 24 months)	25,38,587
<b>Capital gain u/s 49(7) on subsequent sale of building in PY 2022-23</b>	
Full value of consideration	18,00,000
Less: Expenditure in connection with transfer	(40,000)
Net consideration	17,60,000
Less: COA = FVC taken u/s 45(5A) for 2 buildings = ½ of 34,00,000	(17,00,000)
Less: COI	Nil
Short term capital gain (as POH is not > 24 months)	60,000

**SPECIAL PROVISIONS TO PREVENT TAX AVOIDANCE**

**B65-67. 50C** – Mr. X has sold a building on 10.12.2022 which was acquired on 12.9.2021 for Rs. 10 lakh. Compute the capital gain for AY 2023-24 based on the following particulars.

Particulars	I	II	III
Sale price	20,00,000	20,00,000	20,00,000
Date of agreement	10.11.2022	10.11.2022	10.11.2022
SDV on date of agreement	21,00,000	21,00,000	23,00,000
Date of registration	10.12.2022	10.12.2022	10.12.2022
SDV on date of registration	24,00,000	24,00,000	25,00,000
Receipt of sale price	20 lakh on date of transfer (by a/c payee cheque)	10 lakh on date of agreement (by a/c payee cheque); 10 lakh on date of transfer (by a/c payee cheque)	10 lakh on date of agreement (by bearer cheque); 10 lakh on date of transfer (by a/c payee cheque)



■ *Computation of capital gain in the hands of Mr. X for AY 2023-24*

Particulars	I	II	III
Full value of consideration u/s 50C (see Note)	24,00,000	20,00,000	25,00,000
Less: Cost of acquisition	(10,00,000)	(10,00,000)	(10,00,000)
<b>Short term capital gain</b> (as POH is not more than 24 months)	<b>14,00,000</b>	<b>10,00,000</b>	<b>15,00,000</b>

**Note:**

**I:** SDV is taken as FVC as it is > 110% of consideration. SDV on date of agreement is not considered as consideration (or part) is not received on or before that date.

**II:** Consideration is taken as FVC as SDV is not > 110% of consideration. SDV on date of agreement is considered as consideration (or part) is received on or before that date by a specified mode.

**III:** SDV is taken as FVC as it is > 110% of consideration. SDV on date of agreement is not considered as consideration (or part) is not received on or before that date by a specified mode.

**B68-73. 50C** – Determine the value of consideration that will be taken in the following situations of transfer of land held as capital asset by Z, for AY 2023-24. All figures are given in Rs. lakhs. Assume that Z has not disputed the SDV.

#	Date of transfer	Actual consideration	SDV on date of transfer	FMV on date of transfer	DVO valuation
1	1.10.2022	100	120	130	-
2	1.10.2022	100	105	100	-
3	1.10.2022	100	150	125	120
4	1.10.2022	100	150	125	160
5	1.10.2022	100	150	125	105
6	1.10.2022	100	150	125	95

#	Can Z ask for DVO valuation?	FVC u/s 50C	Remarks
1	No, as SDV is not > FMV	120	SDV is taken as FVC as it is > 110% of consideration.
2	No need, as SDV is not taken as FVC	100	Consideration is taken as FVC as SDV is not > 110% of consideration.
3	Yes, as SDV is > FMV	120	DVO valuation is taken as FVC as it is ≤ SDV
4	Yes, as SDV is > FMV	150	SDV is taken as FVC as DVO valuation is > SDV
5	Yes, as SDV is > FMV	105	DVO valuation is taken as FVC as it is ≤ SDV, even if it is within the tolerance band of 110%
6	Yes, as SDV is > FMV	100	Consideration is taken as FVC as FVC should not fall further due to a lower DVO valuation

**B74-75. 50C** – Ramesh sold a vacant plot of land on 1.9.2022 for Rs. 75 lakh (SDV as on this date is Rs. 90 lakh).

A: What will be taken as the full value of consideration for computing capital gain on the transfer of land?

B: Ramesh claims that FMV of the plot of land as on 1.9.2022 is Rs. 80 lakh and he has not disputed the SDV in any forum. AO refers the valuation of building to the Departmental Valuation Officer (DVO) who determines the value to be (i) 92 lakh, or (ii) 80 lakh. What will be taken as the full value of consideration?

■ A: 90 lakh will be taken as FVC u/s 50C as SDV is > 110% of consideration.

B: Case (i): DVO valuation is 92 lakh: FVC will be taken as SDV of 90 lakh as DVO valuation is > SDV. Case (ii): DVO valuation is 80 lakh: FVC will be taken as DVO valuation of 80 lakh as DVO valuation is ≤ SDV.

**B76-78. 50C** – Johar owns a building acquired by him on 15.8.1998 for Rs. 5 lakh. It's FMV on 1.4.2001 was Rs. 9 lakh and SDV on this date was Rs. 8 lakh. Johar added a room to the building on 15.6.2000 by incurring an expenditure of Rs. 75,000. He further added a floor on 15.6.2010 after spending Rs. 2 lakh. The building was sold to Zohra on 15.7.2022 (date when the transfer was registered) for Rs. 30 lakh for which he paid brokerage of 1%. The agreement fixing the consideration was entered on 15.3.2022 when the SDV of building was Rs. 35 lakh. Johar received 10% of the consideration through an uncrossed cheque on the date of agreement. The balance consideration was received by account payee cheque on 15.7.2022 when the SDV was Rs. 40 lakh and FMV was Rs. 35 lakh. Compute the capital gain arising in the hands of Johar for AY 2023-24 if:

A. Johar had not disputed the SDV in any forum and did not claim for valuation before the AO.

B. Johar had filed an appeal against the SDV in the Court which reduced it to Rs. 32 lakh.

C. Johar did not dispute the SDV but claimed that it was more than the FMV on 15.7.2022. The AO referred the matter to the Valuation Officer who determined the value at Rs. 37 lakh.

■  
Computation of capital gain in the hands of Johar for AY 2023-24

Particulars	A	B	C
Full value of consideration u/s 50C: A: SDV of 40 lakh is taken as FVC as it is > 110% of consideration. SDV on date of agreement is not considered as payment is made by uncrossed cheque (not a specified mode) on the date of agreement. B: Consideration is taken as FVC as SDV of 32 lakh is not > 110% of consideration. C: DVO valuation is taken as FVC as it is ≤ SDV of 40 lakh	40,00,000	30,00,000	37,00,000
Less: Expenditure in connection with transfer: 1% of 30 lakh	(30,000)	(30,000)	(30,000)
Net consideration	39,70,000	29,70,000	36,70,000
Less: ICOA = COA (Higher of 5 lakh cost or 8 lakh FMV on 1.4.2001 (which can't exceed SDV on this date)) × (CII of 2022-23/CII of 2001-02) = 8 lakh × (331/100)	(26,48,000)	(26,48,000)	(26,48,000)
Less: COI incurred before 1.4.2001 of Rs. 75,000 is to be ignored	-	-	-
Less: ICOI for cost incurred on 15.6.2010 = COI × (CII of 2022-23/CII of 2010-11) = 2 lakh × (331/167)	(3,96,407)	(3,96,407)	(3,96,407)
<b>Long term capital gain (as POH is &gt; 24 months)</b>	<b>9,25,593</b>	<b>(74,407)</b>	<b>6,25,593</b>

**B79. 50C** – Compute the capital gains chargeable in the hands of Shekhar from the following sequence of events:

- Acquired a residential house for Rs. 5,00,000 on 14.6.1996 which was registered in his name after paying stamp duty of 5%.
- Constructed a floor on 1.5.1998 at a cost of Rs. 1,00,000.
- FMV and SDV of the house on 1.4.2001 were Rs. 7,50,000 and Rs. 6,00,000, respectively
- Constructed a floor on 1.5.2005 at a cost of Rs. 2,00,000.
- Entered into an agreement with Raman for sale of house for Rs. 15,00,000. 5% of the sale price was received as advance on 1.6.2010, being the date of agreement. However, since the negotiations did not materialize, Shekhar forfeited the advance on 1.7.2010.
- Entered into an agreement with Ramdev for sale of house for Rs. 20,00,000. 5% of the sale price was received as advance on 1.6.2017, being the date of agreement. However, since the negotiations did not materialize, Shekhar forfeited the advance on 1.7.2017.
- Again entered into an agreement with Mamta for sale of house for Rs. 30,00,000. 5% of the sale price was received as advance on 1.6.2022, being the date of agreement, by way of account payee cheque. The house was finally sold and the transfer was registered in the name of Mamta on 1.8.2022. Shiva paid brokerage @ 1%.
- FMV and SDV of the house on 1.6.2022 were Rs. 31,00,000 and Rs. 32,00,000, respectively.
- FMV and SDV of the house on 1.8.2022 were Rs. 33,00,000 and Rs. 34,00,000, respectively

■  
Computation of capital gain in the hands of Shekhar for AY 2022-23

Particulars	Rs.
Full value of consideration u/s 50C = Actual consideration, since SDV on date of agreement is not > 110% of 30 lakh. SDV on date of agreement is taken since part of consideration is received on the date of agreement by a specified mode (a/c payee cheque).	30,00,000
Less: Expenses on transfer (brokerage @ 1% of 30,00,000)	(30,000)
Net consideration	29,70,000
Less: ICOA = COA × (CII of 2022-23 / CII of 2001-02) /// COA = Higher of actual cost of 5,25,000 (5,00,000 + 5% stamp duty) or 6,00,000 (FMV on 1.4.2001 which can't exceed SDV on this date) = 6,00,000. /// This is to be reduced by advance forfeited before 1.4.2014 of 75,000 as per section 51. Thus COA = 6,00,000 – 75,000 = 5,25,000. Advance of 1,00,000 forfeited on 1.7.2017 (i.e., on or after 1.4.2014) is taxable as IFOS for AY 2018-19 u/s 56(2)(ix). /// ICOA = 5,25,000 × (331/100)	(17,37,750)
Less: ICOI:	
• For construction of floor on 1.5.1998: Ignored as incurred before 1.4.2001	-
• For construction of floor on 1.5.2005 = COI × (CII of 2022-23/CII of 2005-06) = 2,00,000 × (331/117)	(5,65,812)
<b>Long term capital gain (as POH is &gt; 24 months)</b>	<b>6,66,438</b>

**B80. 50C – Both land and building** – Rashmi purchased a plot of land for Rs. 20 lakh on 1.3.2000 (FMV on 1.4.2001 is Rs. 27 lakh and SDV on this date is Rs. 25 lakh). She constructed a building on this plot at a cost of Rs. 60 lakh (construction completed on 1.5.2021). She added a roof top structure at a cost of Rs. 5 lakh (construction completed on 1.8.2021). She sold the entire property to Mohit for Rs. 120 lakh (Rs. 40 lakh towards land and the balance towards building). The transfer was registered on 1.3.2023 on which date the SDV of land was Rs. 35 lakh while that of building was Rs. 90 lakh. Entire consideration was received on 1.3.2023. Compute the capital gain chargeable in the hands of Rashmi for AY 2023-24.

Computation of capital gain chargeable in the hands of Rashmi for AY 2023-24

Particulars	Land	Building
Full value of consideration u/s 50C: For land = Actual consideration since SDV of 35 lakh is not > 110% of consideration of 40 lakh. For building = SDV of 90 lakh, since it is > 110% of consideration of 80 lakh	40,00,000	90,00,000
Less: ICOA of plot of land = COA (Higher of 20 lakh (cost) or 25 lakh (FMV on 1.4.2001 which can't exceed SDV on this date)) × (CII of 2022-23/CII of 2001-02) = 25 lakh × (331/100)	(82,75,000)	-
Less: COA of building	-	(60,00,000)
Less: COI of building	-	(5,00,000)
<b>Long term capital gain (loss)</b> (since POH is > 24 months)	<b>(42,75,000)</b>	-
<b>Short term capital gain</b> (since POH is not > 24 months)		<b>25,00,000</b>

**B81. 50CA** – Mr. Sharekhan transferred 1,000 unquoted shares of Khan Pvt. Ltd. to Mr. Bond on 10.9.2022 at Rs. 2,000 per share. Fair market value on 10.9.2022, determined under Rule 11UAA, is Rs. 5,000 per share. Mr. Sharekhan had purchased these shares on 10.9.2005 for Rs. 1,500 each. Compute the capital gain for AY 2023-24.

Computation of capital gain for AY 2023-24

Particulars	Rs.
Full value of consideration u/s 50CA = 1,000 shares @ FMV of 5,000 per share since consideration is < FMV	50,00,000
Less: ICOA = COA × (CII of 2022-23/CII of 2005-06) = 1,000 shares × 1,500 cost per share × (331/117)	(42,43,590)
Long term capital gain (as POH is > 24 months)	7,56,410

#### FINANCIAL ASSETS

**B82. Bonus shares** – Mr. Ghosh purchased 2,000 shares of JKG Ltd. on 20.10.1999 for Rs. 80 each. JKG Ltd. allotted bonus shares in the ratio of 1:2 on 10.12.2000 and in the ratio of 1:5 on 15.4.2022. Mr. Ghosh sold his entire holding of shares on 15.12.2022 for Rs. 1,000 per share. Brokerage paid on purchase and sale: 1%. FMV on 1.4.2001 and 15.12.2022 was Rs. 90 and Rs. 1,000 per share, respectively. Shares are not listed and STT is not applicable. Compute the capital gain chargeable for AY 2023-24.

Computation of capital gain chargeable for AY 2023-24

Particulars	Original shares - 2,000	Bonus shares - 1,000	Bonus shares - 600
Full value of consideration	20,00,000	10,00,000	6,00,000
Less: Expenditure on transfer @ 1%	(20,000)	(10,000)	(6,000)
Net consideration	19,80,000	9,90,000	5,94,000
Less: COA			
Original shares: COA = Higher of 80.80 (80 + 1% brokerage) or 90 (FMV on 1.4.2001) = 90. ICOA = COA × (CII of 2022-23/CII of 2001-02) = (2,000 × 90) × (331/100)	(5,95,800)	-	-
Bonus shares 1 <sup>st</sup> lot: COA = Higher of Nil (cost) or 90 (FMV on 1.4.2001) = 90. ICOA = COA × (CII of 2022-23/CII of 2001-02) = (1,000 × 90) × (331/100)	-	(2,97,900)	-
Bonus shares 2 <sup>nd</sup> lot: COA = Nil	-	-	Nil
<b>Long term capital gain*</b>	<b>13,84,200</b>	<b>6,92,100</b>	-
<b>Short term capital gain*</b>	-	-	<b>5,94,000</b>

\*LTCG and STCG based on 24 months of POH reckoned from the date of allotment.

**B83. Right shares** – Jagjit purchased 1,000 shares of PQR Ltd. of face value Rs. 10 each on 22.5.2015 for Rs. 100 each. The company offered 250 right shares on 16.7.2022 at a premium of Rs. 80 each (FMV on this date was Rs. 150 per share). Jagjit transferred the rights entitlement for 150 shares to Rekha for Rs. 25 per share and subscribed to the remaining shares. The shares were allotted on

1.8.2022 (FMV on this date was Rs. 175 per share). Jagjit and Rekha sold their entire shareholding in PQR Ltd. on 25.12.2022 for Rs. 250 per share. Compute the capital gain arising on these transactions. STT is not applicable.

Computation of capital gain chargeable for AY 2023-24

Particulars	Jagjit – Original shares	Jagjit – Right shares	Jagjit – Right renounced	Rekha
Full value of consideration:				
Jagjit: 1,000 original shares and 100 right shares subscribed @ 250 per share	2,50,000	25,000	-	-
Jagjit: 150 right entitlement renounced @ 25 per share	-	-	3,750	-
Rekha: 150 shares @ 250 per share	-	-	-	37,500
Less: COA:				
Jagjit - Original shares: COA × (CII of 2022-23/CII of 2015-16) = (1,000 × 100) × (331/254)	(1,30,315)	-	-	-
Jagjit – Right shares subscribed: 100 shares @ 90 per share	-	(9,000)	-	-
Jagjit – Right entitlement renounced	-	-	Nil	-
Rekha – 150 shares @ 115 (25 paid to Jagjit + 90 paid to PQR Ltd., per share)	-	-	-	(17,250)
<b>Long term capital gain*</b>	<b>1,19,685</b>	-	-	-
<b>Short term capital gain*</b>	-	<b>16,000</b>	<b>3,750</b>	<b>20,250</b>

\*LTCG on original shares as POH is > 24 months from date of allotment. STCG on right shares as POH is not > 24 months from date of allotment (not > 36 months from date of right offer by company in case of rights entitlement renounced).

**B84. Buyback - CA2021(JULY)** – ABC Ltd., a domestic company brought back its 1,000 equity shares listed on a recognized stock exchange. Examine the taxability of the above transaction in the hands of the company and its shareholders. – Refer para 152 of Concepts Book. Mistake by students – Not aware of provisions.

**B85. ESOP** – Shashi, employed by DEF Pvt. Ltd., was offered 1,000 shares in the company at a pre-determined price of Rs. 200 per share. Shashi exercised the option to purchase 500 shares on 15.5.2022 and the shares were allotted to him on 20.5.2022. 200 shares were sold by him on 12.1.2023 for Rs. 600 each. FMV of shares was Rs. 400 on 15.5.2022, Rs. 390 on 20.5.2022 and Rs. 600 on 12.1.2023. Determine the tax implications.

Computation of perquisite taxable under the head 'Salaries' for AY 2023-24, i.e., PY 2022-23 in which shares are allotted

Particulars	Rs.
FMV on the date of exercise of option @ 400 per share for 500 shares	2,00,000
Less: Amount paid @ 200 per share for 500 shares	(1,00,000)
Taxable perquisite	1,00,000

Computation of capital gain for AY 2023-24, i.e., PY 2022-23 in which shares are sold

Particulars	Rs.
Full value of consideration @ 600 per share for 200 shares	1,20,000
Less: COA @ 400 per share (FMV taken into account above) for 200 shares	(80,000)
Short term capital gain	40,000

**B86. 47(x)** – Mohan acquires 200 fully convertible debentures of Share Ltd. on 15.4.2015 of face value Rs. 100 each at a cost of Rs. 150 each. As per the conversion clause in the debenture deed, each debenture was converted into 5 equity shares (face value of Rs. 10 each) of Share Ltd. on 15.4.2019. Mohan sold these shares on 1.3.2023 for Rs. 120 per share (brokerage paid @1%). Compute the capital gain arising to Mohan in respect of these transactions. STT is not applicable.

■ Capital gain does not arise on conversion of debentures to equity shares by virtue of section 47(x). Capital gain arises on subsequent sale of equity shares for AY 2023-24 which is computed as under. COA, POH and indexation is to be taken with reference to debentures.

Particulars	Rs.
Full value of consideration = 120 per share × 1,000 shares	1,20,000
Less: Expenditure on transfer = 1% of 1,20,000	(1,200)
Net consideration	1,18,800

Less: ICOA = COA of debentures × (CII of 2022-23/CII of 2015-16 in which debentures were acquired) = (200 × 150) × (331/254)	(39,094)
<b>Long term capital gain</b>	<b>79,706</b>

### INTANGIBLE ASSETS

**B87. Intangible** – Mr. Doc, a doctor, started his profession. With the passage of time, he acquired lot of reputation. He opened a clinic and ran it for five years. After five years, he sold the clinic to Mr. Vaidya, another doctor, for Rs. 10 lakh on 10.6.2022 (not being a slump sale). This amount included Rs. 2 lakh for his reputation as goodwill. Compute the capital gain on transfer of goodwill for AY 2023-24.

■  
Computation of capital gains arising to Mr. Doc for AY 2023-24 on transfer of goodwill

Particulars	Rs.
Full value of consideration	2,00,000
Less: ICOA	Nil
<b>Long term capital gain</b>	<b>2,00,000</b>

**B88. Intangible** – Mr. X started the business of manufacturing furniture on 10.8.1995. As on 1.4.2001, the fair market value of goodwill of his business was estimated to be Rs. 20 lakh. Over the years, he incurred significant expenditure on building the brand of his furniture business, being Rs. 20 lakh on 10.10.2009 and Rs. 50 lakh on 5.8.2015. He transferred the goodwill of his business to Mr. Z, another furniture manufacturer, for Rs. 150 lakh, on 15.12.2022. Expenditure incurred on such transfer came to Rs. 1 lakh. Compute the capital gains arising to Mr. X for AY 2023-24.

■  
Computation of capital gains arising to Mr. X for AY 2023-24

Particulars	Rs.
Full value of consideration	1,50,00,000
Less: Expenditure on transfer	(1,00,000)
Net consideration	1,49,00,000
Less: ICOA & ICOI	Nil
<b>Long term capital gain</b>	<b>1,49,00,000</b>

**B89. Intangible** – Roshan purchased tenancy rights from Mohan on 1.1.1998 by paying Rs. 1 lakh. Fair market value of such rights on 1.4.2001 was Rs. 2 lakh. He stayed in the property by paying a rent of Rs. 10,000 per month. He transferred these rights to Sohan on 1.1.2023 for Rs. 5 lakh. He had to spend Rs. 10,000 towards legal drafting charges in connection with the transfer. Compute the capital gain for AY 2023-24.

■  
Computation of capital gains arising to Roshan for AY 2023-24

Particulars	Rs.
Full value of consideration	5,00,000
Less: Expenditure on transfer	(10,000)
Net consideration	4,90,000
Less: ICOA = COA (Substitution of FMV on 1.4.2001 is not available) × (CII of 2022-23/CII of 2001-02) = 1 lakh × (331/100)	(3,31,000)
<b>Long term capital gain</b>	<b>1,59,000</b>

### BUSINESS REORGANIZATION

**B90. 50B – CA2018(MAY) (modified)** – Star Enterprises has transferred its unit R to A Ltd. by way of slump sale on 23.1.2023. The summarized balance sheet of Star Enterprises as on that date is given below:

Liabilities	Rs. lakh	Assets	Rs. Lakh
Own capital	1,750	Fixed assets:	
Accumulated P&L Balance	670	• Unit P	200
Liabilities:		• Unit Q	150
• Unit P	90	• Unit R	600
• Unit Q	160	Other assets:	
• Unit R	140	• Unit P	570

		• Unit Q	850
		• Unit R	440
<b>Total</b>	<b>2,810</b>	<b>Total</b>	<b>2,810</b>

Using the further information below, compute the capital gains arising from slump sale of Unit R for AY 2023-24:

- Slump sale consideration on transfer of Unit R was Rs. 900 lakh. Fair market value of capital assets of Unit R on 23.1.2023 was determined in the prescribed manner at Rs. 930 lakh.
- Fixed assets of Unit R include land which was purchased for Rs. 110 lakh in the year 2010 and was revalued at Rs. 140 lakh.
- Other fixed assets are reflected at Rs. 460 lakh (i.e., Rs. 600 lakh less value of land) which represents WDV of those assets as per books. WDV of these assets is Rs. 430 lakh as per Income Tax Act.
- Unit R was set up by Star Enterprises in October 2008.
- CII is 331 for FY 2022-23 and 137 for FY 2008-09.

■

*Computation of capital gains arising from slump sale of Unit R for AY 2023-24*

Particulars	Rs.
Full value of consideration = FMV of capital assets of Unit R as on 23.1.2023	9,30,00,000
Less: COA & COI = Net worth (See Note). Indexation is not available.	(8,40,00,000)
Long term capital gain (since the unit is owned and held for more than 36 months)	90,00,000

Note – Net worth of Unit R

Particulars	Rs.
Cost of land (book value) (revaluation is not considered)	1,10,00,000
WDV of other depreciable fixed assets as per Income Tax Act	4,30,00,000
Other assets (book value)	4,40,00,000
	9,80,00,000
Less: Liabilities	(1,40,00,000)
Net worth	8,40,00,000

Mistake made by students – Applied indexation. Did not exclude revaluation amount from the value of asset.

**B91. 50B – CA2021(JULY)** – Mr. Patel is a proprietor of Star Stores since 20.5.2020. He has transferred his shop by way of slump sale for a total consideration of Rs. 40 lakh. The professional fees and brokerage paid for this sale are Rs. 80,000. His balance sheet as on 31.3.2023 is as under:

Liabilities	Rs.	Assets	Rs.
Own capital	10,50,000	Building	5,00,000
Bank loan	5,00,000	Furniture	5,00,000
Trade creditors	2,50,000	Debtors	2,00,000
Unsecured loan	2,00,000	Other assets	8,00,000
	20,00,000		20,00,000

Other information:

- No individual value of any asset is considered in the transfer deed.
- Other assets include trademarks valuing Rs. 2,00,000 as on 1.4.2022 on which no depreciation has been provided.
- Furniture of Rs. 1,50,000 purchased on 5.11.2022 on which no depreciation has been provided.
- Unsecured loan includes Rs. 50,000 as advance received from his wife, which she has agreed to waive off.

Compute the capital gain for AY 2023-24.

■

*Computation of capital gains arising from slump sale of shop for AY 2023-24*

Particulars	Rs.
FVC = FMV of capital assets of shop as on the date of transfer. Assumed that it is same as actual consideration.	40,00,000
Less: Expenditure on transfer	(80,000)
Net consideration	39,20,000
Less: COA & COI = Net worth (See Note)	(10,42,500)
<b>Short term capital gain</b> (since the shop is owned and held for not more than 36 months)	<b>28,77,500</b>

## Note – Net worth of shop

Particulars	Rs.	Rs.
Building (WDV of block of assets) (assuming it is the same as the balance sheet value)		5,00,000
Furniture (WDV of block of assets) = 5,00,000 — Depreciation @ 50% of 10% of 1,50,000 since used for < 180 days		4,92,500
Trademark (WDV of block of assets) = 2,00,000 – Depreciation @ 25%		1,50,000
Debtors (book value)		2,00,000
Other assets (book value; excluding trademark treated separately)		6,00,000
Value of total assets		19,42,500
Less: Value of liabilities:		
Bank loan	5,00,000	
Trade creditors	2,50,000	
Unsecured loan: 2,00,000 less 50,000 waived off	1,50,000	
		(9,00,000)
Net worth		10,42,500

## CERTAIN OTHER TRANSFERS NOT LIABLE TO CAPITAL GAIN

**B92. 47(xvi) – CA2018(MAY)** - Mrs. Mahalakshmi, an individual aged 68 years, mortgaged her residential property, purchased for Rs. 3 lakh on 1.10.2005, with a bank, under a notified reverse mortgage scheme and was sanctioned a loan of Rs. 20 lakh. As per the said scheme, she was receiving the loan amount in equal monthly instalments of Rs. 30,000 per month from the bank. Mrs. Sharma was not able to repay the loan on maturity and in lieu of settlement of the loan, she surrendered the property to the bank which sold it for Rs. 25 lakh on 22.2.2023. She had no other income during the year. Discuss the tax consequences.

■ Capital gain does not arise on mortgaging of residential property with bank [S. 47(xvi)]. Monthly instalments are exempt u/s 10(43). Capital gain arise on sale of property by bank to recover the loan. It is taxable for AY 2023-24 and is computed as under:

Particulars	Rs.
Full value of consideration	25,00,000
Less: ICOA = COA × (CII of 2022-23/CII of 2005-06) = 3,00,000 × (331/117)	(8,48,718)
Long term capital gain	16,51,282

## EXEMPTIONS

**B93-94. S. 54 – Ramesh sold a residential house, owned by him in Jaipur, for Rs. 75 lakh on 10.7.2022 (brokerage paid @1%). It was gifted to him by his father on 15.7.2021 who purchased it for Rs. 30 lakh on 15.5.2019. SDV of the house on 10.7.2022 was Rs. 80 lakh. Compute the capital gain arising in the hands of Ramesh for AY 2023-24 on the basis of the following additional particulars, assuming the date of filing return of income u/s 139(1) is 31.10.2023. Assume CII for FY 2023-24 as 350 and 2027-28 as 400.**

Particulars	Case A	Case B
Acquired residential house in Bhopal		
• Cost	50,00,000	50,00,000
• Date of purchase	14.10.2023	-
• Date of commencement of construction	-	15.1.2023
• Date of completion of construction	-	15.1.2024
Details of amount spent to acquire Bhopal house		
• Amount spent on 15.1.2023	-	30,00,000
• Amount spent on 14.10.2023	50,00,000	-
• Amount deposited in CGAS Account on 31.10.2023	-	35,00,000
• Total amount withdrawn from CGAS Account and used in construction till 9.7.2025	-	20,00,000
Sold the residential house in Bhopal		
• Date of sale	12.10.2024	12.10.2027
• Sale consideration	60,00,000	65,00,000
• SDV on date of sale	75,00,000	64,00,000

■

## Computation of capital gain in the hands of Ramesh

Computation of capital gain for AY 2023-24 on sale of house in Jaipur	Case A	Case B
Full value of consideration u/s 50C = Consideration, as SDV is not > 110% of consideration	75,00,000	75,00,000
Less: Expenditure on transfer @ 1% of 75 lakh	(75,000)	(75,000)
Net consideration	74,25,000	74,25,000
Less: ICOA = COA (cost to the previous owner u/s 49(1)) × (CII of 2022-23/CII of 2019-20) = 30 lakh × (331/289)	(34,35,986)	(34,35,986)
Long term capital gain before exemption	39,89,014	39,89,014
Less: Exemption u/s 54:		
Case A: Lower of (a) amount of capital gain or (b) cost of new asset (i.e., cost of Bhopal house (50 lakh) purchased within 2 years after date of transfer of Jaipur house)	(39,89,014)	-
Case B: Lower of (a) amount of capital gain or (b) cost of new asset (amount utilized to acquire new asset (30 lakh) and amount deposited in CGAS (35 lakh), till the due date to furnish return of 31.10.2023)	-	(39,89,014)
Taxable long term capital gain	Nil	Nil
Computation of capital gain for AY 2025-26 on sale of Bhopal house within 3 years of its acquisition	Case A	Case B
Full value of consideration u/s 50C = SDV as it is > 110% of consideration	75,00,000	-
Less: COA = Cost 50,00,000 – Capital gain exempted earlier 39,89,014	(10,10,986)	-
Short term capital gain (as POH of Bhopal house does not exceed 24 months)	64,89,014	-
Computation of capital gain for AY 2026-27 w.r.t. CGAS deposit not utilized within 3 years of sale of house in Jaipur	Case A	Case B
Amount of deposit in CGAS not utilized for construction of Bhopal house till 3 years from 10.7.2022, i.e., till 9.7.2025 = 35 lakh – 20 lakh	-	15,00,000
Long term capital gain (same as original capital gain)	-	15,00,000
Computation of capital gain for AY 2028-29 on sale of house in Bhopal after 3 years of its construction	Case A	Case B
Full value of consideration u/s 50C = Consideration, as SDV is not > 110% of consideration	-	65,00,000
ICOA = COA × (CII of 2027-28/CII of 2023-24) = 50 lakh × (400/350). Exemption u/s 54 allowed earlier is not forfeited as house is sold after the lock-in period of 3 years.	-	(57,14,286)
Long term capital gain (as POH of Bhopal house exceeds 24 months)	-	7,85,714

**B95. S. 54 – CA2019(MAY)** – Mr. Roy owned a residential house in Noida. It was acquired on 9.9.2012 for Rs. 30,00,000. He sold it for Rs. 1,57,00,000 on 7.1.2020.

Mr. Roy utilized the sale proceeds of the above property to acquire a residential house in Panchkula for Rs. 2,05,00,000 on 20.7.2020. The said house property was sold on 31.10.2022 and he purchased another residential house in Delhi for Rs. 2,57,00,000 on 2.3.2023. The property at Panchkula was sold for Rs. 3,25,00,000.

Calculate capital gain chargeable to tax for AY 2020-21 and 2023-24. All workings should form part of your answer.

■

## Computation of capital gain chargeable to tax for AY 2020-21 and 2023-24

Computation of capital gain for AY 2020-21 on sale of Noida house	Rs.
Full value of consideration	1,57,00,000
Less: ICOA = COA × (CII of 2019-20/CII of 2012-13) = 30 lakh × (289/200)	(43,35,000)
Long term capital gain before exemption	1,13,65,000
Less: Exemption u/s 54 in respect of purchase of new residential house within 2 years after transfer of Noida house = Lower of (a) amount of capital gain or (b) cost of new house of Rs. 2.05 crores	(1,13,65,000)
Taxable long term capital gain	Nil
Computation of capital gain for AY 2023-24 since Panchkula house sold within 3 years of its acquisition	Rs.
Full value of consideration	3,25,00,000
ICOA = COA (Cost – Capital gain exempted earlier) × (CII of 2022-23/CII of 2020-21) = (2,05,00,000 – 1,13,65,000) × (331/301).	(1,00,45,465)
Long term capital gain before exemption (since new house sold was held for more than 24 months)	2,24,54,535



Less: Exemption u/s 54 in respect of purchase of new residential house in Delhi within 2 years of transfer of Panchkula house = Lower of (a) amount of capital gain or (b) cost of new house of Rs. 2.57 crores	(2,24,54,535)
Taxable long term capital gain	Nil

*Mistake made by students – Non deduction of capital gain exempted earlier, to determine COA of Panchkula house. Non deduction of exemption u/s 54 to find capital gain on sale of Panchkula house.*

**B96. S. 54 – CA2019(MAY) (modified)** - Deepak has a residential house property taxable u/s 22. Such property was acquired on 12.8.2006 for Rs. 2,00,000. The property is sold for Rs. 23,00,000 on 1.5.2022. The sub-registrar refused to register the documents for the said value, as according to him, stamp duty value based on State Government guidelines was Rs. 28,00,000. On claim by Deepak of SDV being more than the FMV of property, the matter was referred to the valuation officer who fixed the value of the house at Rs. 25,00,000. He acquired another residential house on 31.3.2023 for Rs. 17,00,000 for self occupation. On 1.3.2024, he sold such new residential house for Rs. 30,00,000. Compute the capital gain for AY 2023-24 and 2024-25.

*Computation of capital gain for AY 2023-24 and AY 2024-25*

Computation of capital gain for AY 2023-24	Rs.
Full value of consideration u/s 50C: SDV is taken if it is > 110% of consideration. However, if on reference, DVO determines the value less than SDV, such value is taken as FVC u/s 50C.	25,00,000
Less: ICOA = COA × (CII of 2022-23/CII of 2006-07) = 2 lakh × (331/122)	(5,42,623)
Long term capital gain before exemption	19,57,377
Less: Exemption u/s 54: Lower of (a) capital gain or (b) cost of new house purchased within 2 years after 1.5.2022	(17,00,000)
Taxable long term capital gain	2,57,377
Computation of capital gain for AY 2024-25 since new house is sold within 3 years of acquisition	Rs.
Full value of consideration	30,00,000
Less: COA = Cost – Capital gain exempted earlier = 17 lakh – 17 lakh	Nil
Short term capital gain (since POH of new house is not more than 24 months)	30,00,000

**B97. S. 54 – CA2017(NOV) (modified)** - Sunil entered into an agreement with Dhaval to sell his residential house located at Navi Mumbai on 16.8.2022 for Rs. 80,00,000. The sale proceeds were to be paid in the following manner:

1. 20% through account payee bank draft on the date of agreement.
2. 60% on the date of possession.
3. Balance after completion of registration of title of the property.

Dhaval was handed over possession of the property on 15.12.2022 and the registration process was completed on 14.1.2023. He paid the sale proceeds as per the sale agreement. The value determined by the stamp duty authority on 16.8.2022 was Rs. 90,00,000 whereas on 14.1.2023 it was Rs. 91,50,000. It was Rs. 90,50,000 on 15.12.2022.

Sunil had acquired the property on 1.4.2002 for Rs. 20,00,000. After recovering the sale proceeds from Dhaval, he purchased two residential house properties on 24.3.2023, one in Kanpur for Rs. 15,00,000 and another in Delhi for Rs. 10,00,000. Compute the capital gain for AY 2023-24.

*Computation of capital gain for AY 2023-24*

Particulars	Rs.
Full value of consideration u/s 50C = SDV of Rs. 90 lakh since it is > 110% of Rs. 80 lakh. Since part consideration is paid through A/c payee bank draft on the date of agreement, SDV on that date is considered u/s 50C.	90,00,000
Less: ICOA = COA × (CII of 2022-23/CII of 2002-03) = 20 lakh × (331/105)	(63,04,762)
Long term capital gain before exemption (since house is held for more than 24 months)	26,95,238
Less: Exemption u/s 54: Lower of (a) capital gain or (b) cost of two new houses purchased within 2 years after date of transfer of Navi Mumbai house (25 lakh). Since amount of LTCG does not exceed Rs. 2 crore, Sunil can opt to claim exemption in respect of 2 residential houses in India. It is assumed that he exercised this 'once in a lifetime' option and that he had not exercised this option any time before.	(25,00,000)
Taxable long term capital gain	1,95,238

**B98. S. 54 – CA2009(NOV)** – A house was purchased on 1.5.2005 for Rs. 4,50,000 and was used as a residence by the owner. The owner had contracted to sell this property in June 2012 for Rs. 10 lakh and had received an advance of Rs. 70,000 towards sale. The intending purchaser did not proceed with the transaction and the advance was forfeited by the owner. The property was sold in April 2022 for Rs. 15,00,000. The owner, from out of sale proceeds, invested Rs. 3,00,000 in a new residential house in January 2023. Compute the capital gains.

■

*Computation of capital gain for AY 2023-24*

Particulars	Rs.
Full value of consideration	15,00,000
Less: ICOA = COA (cost – advance forfeited before 1.4.2014 deducted u/s 51) × (CII of 2022-23/CII of 2005-06) = 3,80,000 (4,50,000 – 70,000) × (331/117)	(10,75,043)
Long term capital gain before exemption	4,24,957
Less: Exemption u/s 54: Lower of (a) capital gain or (b) cost of new house purchased within 2 years after transfer of original house	(3,00,000)
<b>Taxable long term capital gain</b>	<b>1,24,957</b>

**B99. S. 54, 54EC** – Pooja acquired a residential building for Rs. 50 lakh on 23.4.2016 (registration and other expenses of 2 lakh). She entered into an agreement to sell the building during June 2018 for Rs. 100 lakh for which an advance of 5% was received. However, the negotiations could not succeed and Pooja forfeited the advance on 12.7.2018 as per the terms of the agreement.

She again entered into an agreement for sale of building for Rs. 120 lakh. An advance of 10% was received by account payee cheque on 14.9.2022, being the date of the agreement. The sale deed was finally executed and registered on 15.10.2022. Pooja incurred brokerage expenses of 1%. SDV of the building was Rs. 130 lakh on 14.9.2022 and Rs. 135 lakh on 15.10.2022.

She utilized the sale proceeds of the building as follows:

1. Purchased a residential house in Bangalore for Rs. 20 lakh on 20.5.2023.
2. Purchased a residential house in Sydney for Rs. 40 lakh on 15.3.2023.
3. Subscribed to NHA capital gains bonds for Rs. 20 lakh on 10.3.2023, for Rs. 10 lakh on 10.4.2023 and for Rs. 30 lakh on 25.4.2023.

Compute the income chargeable under the head 'Capital Gains'.

■

*Computation of capital gain for AY 2023-24*

Particulars	Rs.
Full value of consideration u/s 50C = Consideration, since SDV is not > 110% of consideration. SDV on date of agreement is considered since advance is received by a/c payee cheque on or before this date.	1,20,00,000
Less: Expenditure on transfer = 1% of Rs. 120 lakh	(1,20,000)
Net consideration	1,18,80,000
Less: ICOA = COA × (CII of 2022-23/CII of 2016-17) = 52 lakh (50 lakh + 2 lakh) × (331/264)	(65,19,697)
Long term capital gain before exemption (since house property is held for more than 24 months)	53,60,303
Less: Exemption:	
<i>Exemption u/s 54:</i> Lower of (a) amount of capital gain, or (b) cost of new asset (Bangalore house). Since capital gain is not > 2 crore, exemption can be claimed in respect of two residential house properties in India, at the option of assessee, acquired 1Y before or 2Y after the date of transfer of original asset. However, cost of residential house in Sydney is not eligible for exemption in this case since it is outside India.	(20,00,000)
<i>Exemption u/s 54EC</i> = Lower of (a) amount of capital gain, or (b) cost of new asset (investment in NHA bonds made within 6 months after transfer of original asset on 15.10.2022 subject to upper cap of Rs. 50 lakh)	(30,00,000)
<b>Taxable long term capital gain</b>	<b>3,60,303</b>

*Forfeiture of advance on 12.7.2018:* This is taxable under the head IFOS for AY 2019-20 u/s 56(2)(ix) since it is forfeited on or after 1.4.2014.

**B100. S. 54, 54EC – CA2015(NOV) (modified)** - Martin sold his residential house property on 8.6.2022 for Rs. 7 crore which was purchased by him for Rs. 2 crore on 5.5.2006. He paid Rs. 10 lakh as brokerage for the sale of said property. The stamp duty valuation assessed by sub registrar was Rs. 8 crore.

He bought another house property on 25.12.2022 for Rs. 1.5 crore. He deposited Rs. 1 crore on 10.11.2022 in the capital gain bond of NHA. He deposited another Rs. 1 crore on 10.7.2023 in the capital gain deposit scheme with SBI for construction of additional floor of house property. Compute income under the head 'Capital Gains' for AY 2023-24.

■

*Computation of income under the head 'Capital Gains' for AY 2023-24*

Particulars	Rs.
Full value of consideration u/s 50C = SDV, since it is > 110% of consideration.	8,00,00,000
Less: Expenditure on transfer	(10,00,000)
Net consideration	7,90,00,000

Less: ICOA = COA × (CII of 2022-23/CII of 2006-07) = 2 crore × (331/122)	(5,42,62,295)
Long term capital gain before exemption (since house property is held for more than 24 months)	2,47,37,705
Less: Exemption:	
<i>Exemption u/s 54</i> = Lower of (a) amount of capital gain, or (b) cost of new asset [purchase of new house property and deposit in CGAS account, before the due date of filing return u/s 139(1) (assumed to be 31.7.2023)].	(2,50,00,000)
<i>Exemption u/s 54EC</i> = Lower of (a) amount of capital gain, or (b) cost of new asset [investment in NHA bonds made within 6 months after transfer of original asset, subject to upper cap of Rs. 50 lakh]	(50,00,000)
Taxable long term capital gain	Nil

*Note:* Since capital gain is > 2 crore, exemption u/s 54 is available only for one new house. However, in this case, exemption will not be denied on amount to be spent on construction of additional floor on the ground that since only one new house is entitled to exemption, the amount deposited in CGAS will not be construed as having been utilized to acquire new house. This is because different floors (units) of a house property can be construed as one house property.

**B101. S. 54, 54EC – CA2011(NOV)** - Selvan acquired a residential house in January 2006 for Rs. 10,00,000 and made some improvements by way of additional construction to the house, incurring expenditure of Rs. 2,00,000 in October 2010. He sold the house property in October 2022 for Rs. 70,00,000. The value of property was adopted as Rs. 80,00,000 by the State stamp valuation authority for registration purpose. He acquired a residential house in January 2022 for Rs. 25,00,000. He deposited Rs. 20,00,000 in capital gains bonds issued by NHA in June 2023. Compute the capital gain taxable for AY 2023-24.

What would be the tax consequences if the house property acquired in January 2022 is sold for Rs. 40,00,000 in March 2024?

*Computation of capital gain for AY 2023-24*

Particulars	Rs.
Full value of consideration u/s 50C = SDV, since it is > 110% of consideration.	80,00,000
Less: ICOA = COA × (CII of 2022-23/CII of 2005-06) = 10 lakh × (331/117)	(28,29,060)
Less: ICOI = COI × (CII of 2022-23/CII of 2010-11) = 2 lakh × (331/167)	(3,96,407)
Long term capital gain before exemption (since house property is held for more than 24 months)	47,74,533
Less: Exemption:	
<i>Exemption u/s 54</i> = Lower of (a) amount of capital gain, or (b) cost of new asset [purchase of new house property within 1Y before the date of transfer of original asset]	(25,00,000)
<i>Exemption u/s 54EC</i> : Not available since NHA bonds are purchased after 6 months of transfer of original asset	Nil
Taxable long term capital gain	22,74,533

*Computation of capital gain for AY 2024-25 if the new house is sold within 3 years of its acquisition*

Particulars	Rs.
Full value of consideration	40,00,000
Less: ICOA = COA (Cost – Capital gain exempt earlier u/s 54) = 25 lakh – 25 lakh = Nil) × (CII of 2023-24/CII of 2021-22)	Nil
Long term capital gain (since new house is sold after 24 months)	40,00,000

**B102. S. 45(2), 54EC** - Yuvraj purchased a vacant plot of land for Rs. 5 lakh on 26.12.1990. He started a real estate business on 20.5.2015 and converted the plot of land as his stock-in-trade. He constructed 10 identical housing units on the land at a cost of Rs. 15 lakh each (construction completed on 22.11.2022) and sold 6 units at Rs. 50 lakh each, during the rest of the PY 2022-23. He purchased RECL Bonds worth Rs. 30 lakh on 10.4.2023 and Rs. 40 lakh on 10.10.2023. Compute the taxable income arising from these transactions. FMV and SDV of land as on 1.4.2001 was Rs. 10 lakh and Rs. 11 lakh, respectively. It was Rs. 100 lakh and Rs. 120 lakh, respectively, on 20.5.2015.

*Computation of taxable income in the hands of Yuvraj*

In case of conversion of capital asset into stock-in-trade, while year of transfer of capital asset is the year of conversion into stock-in-trade, year of charge of capital gain is the year in which stock-in-trade is sold – Section 45(2).

Particulars	Rs.
<b>Capital gain for AY 2023-24 being the year of sale of 60% portion of land</b>	
Full value of consideration u/s 45(2) = FMV on date of conversion (even if SDV is higher)	1,00,00,000
Less: ICOA = COA × (CII of 2015-16 being the year of conversion / CII of 2001-02) // COA = Higher of cost or FMV on 1.4.2001 (which can't exceed SDV on this date) = 10 lakh // ICOA = 10 lakh × (254/100)	(25,40,000)
Long term capital gain	74,60,000
Long term capital gain for AY 2023-24 = 60%	44,76,000

Less: Exemption u/s 54EC = Lower of (a) amount of capital gain, or (b) cost of new asset [investment in bonds of RECL subject to cap of 50 lakh]. Time limit of 6 months for making investment is from date of sale of stock-in-trade and not from date of conversion of capital asset into stock-in-trade (Circular 791 of 2000).	(30,00,000)
<b>Taxable long term capital gain</b>	<b>14,76,000</b>
<b>Business income for AY 2023-24 being the year of sale of 6 units and 60% portion of land</b>	
Sale consideration = 6 units × 50 lakh	3,00,00,000
Less: Cost of land = FMV of 60% portion of land on date of conversion	(60,00,000)
Less: Cost of 6 units @ 15 lakh	(90,00,000)
<b>Business income</b>	<b>1,50,00,000</b>

**B103. S. 54EC – CA2012(MAY) - Anshu transferred land and building on 2.1.2023 and furnished the following information:**

Particulars	Rs.
Net consideration received	14,00,000
Value adopted by stamp valuation authority	23,00,000
Value ascertained by valuation officer on reference by AO	24,00,000
Land was acquired by Anshu on 1.4.2001. FMV on this date was:	1,10,000
The residential building was constructed on land by Anshu at a cost of Rs. 3,20,000 (construction completed on 1.12.2005)	-
Short term capital loss incurred on sale of shares during FY 2014-15 brought forward	1,00,000

Anshu seeks your advice on the amount to be invested in NHAI bonds so as to be exempt from capital gain tax under Income Tax Act.

■

*Computation of capital gain for AY 2023-24*

Particulars	Rs.
FVC u/s 50C = SDV is taken where it is > 110% of consideration. But where assessee claims that SDV is > FMV and a reference is made to the DVO and where DVO valuation is more than SDV, then SDV will be taken as FVC.	23,00,000
Less: ICOA of land = COA (FMV on 1.4.2001 is taken in absence of any other information) × (CII of 2022-23/CII of 2001-02) = 1,10,000 × (331/100).	(3,64,100)
Less: ICOA of residential building = COA × (CII of 2022-23/CII of 2005-06) = 3,20,000 × (331/117)	(9,05,299)
Long term capital gain before exemption (since capital asset is held for more than 24 months)	10,30,601
Less: Brought forward short-term loss (can be carried forward and set off u/s 74 against any capital gain (LTCG or STCG) for 8 AYS succeeding the year in which it was first computed): For details, refer para 191 of Concepts Book.	(1,00,000)
Balance: Anshu should invest this amount in NHAI bonds within 6 months after 2.1.2023 so as to reduce capital gain to Nil by claiming exemption u/s 54EC	9,30,601

**B104. S. 54F - Jagjit owns certain jewellery which was acquired in two lots: On 1.5.2004 for Rs. 20 lakh and on 1.5.2020 for Rs. 30 lakh. The entire jewellery was sold on 1.5.2022: First lot for Rs. 80 lakh and second lot for Rs. 60 lakh. He incurred expenditure of 1% on sale of each lot. Jagjit utilized the consideration as follows:**

1. He deposited Rs. 60 lakh in Capital Gains Accounts Scheme before filing his return of income on 31.7.2023.
2. He utilized the amount deposited in CGAS for purchasing a residential house in Jamnagar on 1.1.2024 for Rs. 60 lakh.
3. He purchased another residential house in Faridabad on 1.4.2024 for Rs. 20 lakh by utilizing money, other than that deposited in the CGAS account.

Jagjit lives in his own house in Goa which he had purchased in 2005 and this was the only house he owned. Compute the capital gains for relevant assessment years.

■

*Computation of capital gain in the hands of Jagjit*

Computation of capital gain for AY 2023-24 on sale of jewellery	LTCG	STCG
Full value of consideration	80,00,000	60,00,000
Less: Expenditure on transfer	(80,000)	(60,000)
Net consideration	79,20,000	59,40,000
Less: Cost of acquisition:		
• ICOA for 1 <sup>st</sup> lot = COA × (CII of 2022-23/CII of 2004-05) = 20 lakh × (331/113)	(58,58,407)	-
• COA for 2 <sup>nd</sup> lot	-	(30,00,000)
Capital gain (LTCG for 1 <sup>st</sup> lot and STCG for 2 <sup>nd</sup> lot based on POH cut off of 36 months)	20,61,593	29,40,000
Less: Exemption u/s 54F (only on LTCG) = Lower of (a) amount of capital gain or (b) Capital gain × (Cost	(15,61,813)	-

of new asset / Net consideration) = $20,61,593 \times (60,00,000 / 79,20,000)$ . Cost of new asset is the amount deposited in CGAS by the due date to furnish return.		
Taxable capital gain	4,99,780	29,40,000
<b>Computation of capital gain for AY 2025-26 in which another residential house, other than the new asset, is purchased within 2 years after transfer of jewellery</b>	<b>Rs.</b>	<b>Rs.</b>
Long term capital gain = Capital gain exempted earlier	15,61,813	-

**B105. S. 54F** - Jagjit purchased a vacant plot of land on 1.8.2010 for Rs. 30 lakh which he sold on 1.8.2022 for Rs. 90 lakh (SDV on this date was Rs. 95 lakh). He paid brokerage of 1% on sale. Subsequently, he utilized the amount received on sale of land to purchase a residential house in Shimla on 1.3.2023 for Rs. 75 lakh. As on 1.8.2022, he owned a house in which he resided as well as a shop which he had given on rent. He sold the house in Shimla on 1.6.2025 for Rs. 90 lakh (SDV on this date was Rs. 100 lakh; brokerage paid 1%). Compute the capital gain arising in his hands. Assume CII for FY 2025-26 to be 350.

*Computation of capital gain in the hands of Jagjit*

<b>Computation of capital gain for AY 2023-24 on sale of vacant plot of land</b>	<b>Rs.</b>
Full value of consideration u/s 50C = Consideration, since SDV is not > 110% of consideration	90,00,000
Less: Expenditure on transfer	(90,000)
Net consideration	89,10,000
Less: ICOA = COA $\times$ (CII of 2022-23/CII of 2010-11) = 30 lakh $\times$ (331/167)	(59,46,108)
Long term capital gain before exemption	29,63,892
Less: Exemption u/s 54F = Lower of (a) amount of capital gain or (b) Capital gain $\times$ (Cost of new asset / Net consideration) = $29,63,892 \times (75,00,000 / 89,10,000)$ . New asset is the residential house in Shimla purchased within 2 years after the date of transfer of land.	(24,94,859)
<b>Taxable long term capital gain</b>	<b>4,69,033</b>
<b>Computation of capital gain for AY 2026-27 in which new house is sold within 3 years of its purchase</b>	<b>Rs.</b>
Full value of consideration u/s 50C = SDV, since it is > 110% of consideration	1,00,00,000
Less: Expenditure on transfer = 1% of 90 lakh	(90,000)
Net consideration	99,10,000
Less: ICOA = COA $\times$ (CII of 2025-26/CII of 2022-23) = 75 lakh $\times$ (350/331).	(79,30,514)
Long term capital gain on sale of house in Shimla (since held for more than 24 months)	19,79,486
Long term capital gain exempted earlier (now forfeited)	24,94,859
<b>Taxable long term capital gain</b>	<b>44,74,345</b>

**TAX ON CAPITAL GAIN**

**B106. Tax liability** - Compute the tax liability of Charmis from the following particulars for the AY 2023-24. He has not opted for section 115BAC.

<b>Particulars</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>
Residential status	Resident	Resident	Resident	Non-resident
Age during the PY 2022-23	55	65	75	75
Income from salaries (computed)	1,50,000	1,50,000	1,50,000	1,50,000
LTCL on sale of equity shares of Z Ltd. on 15.9.2022 (STT paid on purchase and sale)	3,00,000	2,00,000	1,20,000	1,20,000
STCL on sale of units of equity oriented fund on 15.10.2022 (STT paid on sale)	2,00,000	1,00,000	1,00,000	1,00,000
STCL on sale of vacant plot of land on 15.11.2022	5,00,000	50,000	20,000	20,000
LTCL on sale of diamond jewellery on 15.12.2022	1,50,000	90,000	2,00,000	2,00,000
LTCL on sale of unlisted shares of BCD Pvt. Ltd. on 15.1.2023	1,00,000	-	80,000	80,000
Deduction u/s 80C and 80D from gross total income	1,50,000	1,50,000	2,00,000	2,00,000

*Computation of tax liability of Charmis for AY 2023-24*

<b>Particulars</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>
<b>Composition of total income</b>				
STCL u/s 111A: STCL on sale of units of equity oriented fund	2,00,000	1,00,000	1,00,000	1,00,000

LTCG u/s 112A: LTCG on sale of equity shares of Z Ltd.	3,00,000	2,00,000	1,20,000	1,20,000
LTCG u/s 112: LTCG on sale of diamond jewellery and unlisted shares	2,50,000	90,000	2,80,000	2,80,000
Other income (taxable at regular rates): Salary and STCG on sale of vacant plot of land	6,50,000	2,00,000	1,70,000	1,70,000
Gross total income	14,00,000	5,90,000	6,70,000	6,70,000
Less: Deduction u/s 80C and 80D from gross total income: Not available on capital gain u/s 111A, 112A, 112	(1,50,000)	(1,50,000)	(1,70,000)	(1,70,000)
Total income	12,50,000	4,40,000	5,00,000	5,00,000
<b>Incomes comprised in total income:</b>				
Capital gain u/s 111A, 112A, 112	7,50,000	3,90,000	5,00,000	5,00,000
Normal income	5,00,000	50,000	Nil	Nil
Unexhausted basic exemption limit (UBEL) = Basic exemption limit – Normal income. For maximum benefit, this will first be adjusted against capital gain u/s 112, then u/s 111A, then u/s 112A). Benefit of UBEL is not available to NR.	-	2,50,000	3,00,000	N/A
<b>Computation of tax liability:</b>				
Tax on LTCG u/s 112 @ 20%: A: 20% of 2,50,000. B: 20% of Nil (90,000 - 90,000 adjusted against UBEL). C: 20% of Nil (2,80,000 - 2,80,000 adjusted against UBEL). D: 20% of 2,80,000	50,000	Nil	Nil	56,000
Tax on STCG u/s 111A @ 15%: A: 15% of 2,00,000. B: 15% of Nil (1,00,000 - 1,00,000 adjusted against UBEL). C: 15% of 80,000 (1,00,000 - 20,000 adjusted against remaining UBEL). D: 15% of 1,00,000	30,000	Nil	12,000	15,000
Tax on LTCG u/s 112A (exceeding Rs. 1 lakh) @ 10%: A: 10% of 2,00,000 (3,00,000 less 1 lakh). B: 10% of 40,000 (1,40,000 (2,00,000 - 60,000 adjusted against remaining UBEL) less 1 lakh). C & D: 10% of 20,000 (1,20,000 less 1 lakh)	20,000	4,000	2,000	2,000
Tax on other income at regular rates: A: Tax on 5,00,000. B: Tax on 50,000. C & D: Tax on Nil	12,500	Nil	Nil	Nil
	1,12,500	4,000	14,000	73,000
Less: Rebate u/s 87A: Available up to 12,500 to a resident individual with total income not > 5 lakh. Not available on tax u/s 112A.	-	-	(12,000)	-
	1,12,500	4,000	2,000	73,000
Add: Surcharge: Not applicable for total income up to 50 lakh	-	-	-	-
	1,12,500	4,000	2,000	73,000
Add: HEC @ 4%	4,500	160	80	2,920
<b>Tax liability</b>	<b>1,17,000</b>	<b>4,160</b>	<b>2,080</b>	<b>75,920</b>

**B107. CA2021(JULY)** – Compute the tax liability for AY 2023-24 (in a manner most beneficial to the assessee) of Satya, a resident individual aged 42 years, where his total income is Rs. 4,90,000 and the income comprises of long term capital gains on sale of plot of Rs. 1,00,000 and short term capital gain on sale of listed equity shares (STT paid) of Rs. 2,90,000. Ignore the concessional provisions u/s 115BAC.

*Composition of total income of Satya for AY 2023-24*

Particulars	Rs.
Long term capital gain on sale of plot – U/s 112	1,00,000
Short term capital gain on sale of listed equity shares (STT paid) – U/s 111A	2,90,000
Other income	1,00,000
Total income	4,90,000

Unexhausted basic exemption limit (UBEL) = Basic exemption limit 2,50,000 – Other income 1,00,000 = 1,50,000. For maximum benefit, this will first be adjusted against capital gain u/s 112, then u/s 111A.

*Computation of tax liability of Satya for AY 2023-24*

Particulars	Rs.
Tax on LTCG u/s 112 @ 20% of Nil (LTCG of 1,00,000 – UBEL to the extent of 1,00,000)	-
Tax on STCG u/s 111A @ 15% of 2,40,000 (STCG of 2,90,000 – Remaining UBEL of 50,000)	36,000
	36,000

Less: Rebate u/s 87A up to 12,500 since total income does not exceed 5 lakh	(12,500)
	23,500
Add: HEC @ 4%	940
<b>Tax liability</b>	<b>24,440</b>

*Mistake by students: Failure to consider benefit of unexhausted basic exemption limit. Failure to provide rebate u/s 87A.*

**B108. 112A – CA2019(MAY)** - Himanshi (68 years) is a resident individual. During the AY 2023-24, she has income from long term capital gain on transfer of equity shares Rs. 1,80,000 (STT paid on acquisition and transfer) and income from other sources Rs. 2,75,000. Compute her tax liability for AY 2023-24. Assume that the assessee has not opted for section 115BAC.

■  
Computation of tax liability of Himanshi for AY 2023-24

Particulars	Rs.
<b>Incomes comprised in total income:</b>	
Long term capital gain u/s 112A	1,80,000
Other income	2,75,000
<b>Computation of tax liability:</b>	
Tax on LTCG u/s 112A: Unexhausted BEL = 25,000 (3,00,000 BEL – 2,75,000 other income). Taxable LTCG = 1,80,000 – 25,000 = 1,55,000. Tax u/s 112A on capital gain exceeding Rs. 1 lakh = 10% of 55,000.	5,500
Tax on balance income of Rs. 2,75,000 at regular rates	Nil
Tax on total income	5,500
Less: Rebate u/s 87A: Not allowed on tax u/s 112A	-
	5,500
Add: Surcharge not applicable as total income is not > 50 lakh	-
	5,500
Add: HEC@ 4%	220
<b>Tax liability</b>	<b>5,720</b>

*Mistake by students – Failure to provide benefit of unexhausted BEL.*

**B109. 112A - CA2021(JAN)** - One equity share of a company listed on recognized stock exchange is acquired on 1.1.2017 at Rs. 100. Its fair market value is Rs. 200 on 31.1.2018 and it is sold on 1.4.2023 at Rs. 150. Assuming all conditions required by section 112A are fulfilled, compute the amount of capital gain/loss on sale of this share u/s 112A.

■  
Computation of capital gain/loss u/s 112A

Particulars	Rs.
Full value of consideration	150
Less: COA = Higher of (a) cost (i.e., 100) or (b) lower of FMV on 31.1.2018 of 200 or FVC of 150 (i.e., 150) = 150.	(150)
Benefit of indexation is not available u/s 112A.	
Long term capital gain u/s 112A	Nil

**B110. 112A, 112 - CA2021(JULY)** – Examine the taxability of capital gains in the following scenarios for AY 2023-24, determine the taxable amount and rate of tax applicable:

1: On 28.2.2023, 10,000 shares of XY Ltd., a listed company are sold by Mr. B @ 550 per share and STT was paid at the time of sale of shares. These shares were acquired by him on 5.4.2017 @ 395 per share by paying STT at the time of purchase. On 31.1.2018, the shares of XY Ltd. were traded on a recognized stock exchange at the fair market value of Rs. 390 per share.

2: Mr. A is the owner of residential house which was purchased on 1.9.2017 for Rs. 9,00,000. He sold the said house on 4.9.2022 for Rs. 19,00,000. Valuation as per stamp valuation authorities was Rs. 45,00,000. He invested Rs. 19,00,000 in NHAI Bonds on 21.3.2023.

■  
Scenario 1 - Computation of capital gain u/s 112A as shares are transferred on which STT is paid on sale and purchase

Particulars	Rs.
Full value of consideration = 10,000 shares @ 550 per share	55,00,000
Less: COA = Higher of cost (i.e., 395) or lower of FMV on 31.1.2018 of 390 or FVC of 550 (i.e., 390) = 395. Benefit of indexation is not available u/s 112A.	(39,50,000)
Long term capital gain u/s 112A. This will be taxable at 10% on amount exceeding 1 lakh, i.e., on 14,50,000.	15,50,000

*Mistake by students – Failure to correctly compute LTCG u/s 112A and specify the rate of tax thereon.*

*Scenario 2 - Computation of capital gain u/s 112 as gain is LTCG since period of holding of house is more than 24 months*

Particulars	Rs.
Full value of consideration u/s 50C is stamp duty value since it exceeds 110% of consideration	45,00,000
Less: ICOA = COA × (CII of 2022-23/CII of 2017-18) = 9 lakh × (331/272)	(10,95,221)
	34,04,779
Less: Exemption u/s 54EC for investment in NHAI bonds within 6 months after 4.9.2022. Not eligible since investment is made after the eligible period.	-
Long term capital gain u/s 112 taxable @ 20%	34,04,779

*Mistake by students – Wrongly allowed exemption u/s 54EC even when investment is made beyond the time limit.*

**B111. 55, 112A** – Calculate the tax liability of Chintan, a resident individual of age 45 years, for the AY 2023-24 on sale of 1,000 listed equity shares of BCD Ltd. on 1.10.2022 where STT was paid on acquisition as well as transfer.

Particulars	
Date of purchase	1.6.2000
Purchase price	100
STT paid on purchase	STT was not in force in the year 2000
FMV on 1.4.2001	150
FMV on 31.1.2018	500
Sale price	900
STT paid on sale	0.1%
Brokerage on sale	1%
Business income	5,00,000
Deposit in NSC certificates	50,000

Assume that the assessee has not opted for section 115BAC.

*Computation of tax liability for AY 2023-24 in the hands of Chintan*

Particulars	Rs.
Long term capital gain on sale of listed equity shares u/s 112A where STT has been paid on sale (it is not required to be paid on acquisition as shares are acquired before 1.10.2004 when STT came into force):	
Full value of consideration	9,00,000
Less: Expenses on transfer being brokerage on sale (STT is not allowed as deduction)	(9,000)
Net consideration	8,91,000
Less: COA = Higher of (a) cost (1,50,000 being higher of cost or FMV on 1.4.2001) or (b) lower of FMV on 31.1.2018 or FVC (5,00,000). Indexation is not allowed u/s 112A.	(5,00,000)
Long-term capital gain u/s 112A	3,91,000
Business income	5,00,000
Gross total income	8,91,000
Less: Deduction u/s 80C for amount deposited in NSC certificates (not allowed on income u/s 112A)	(50,000)
Total income	8,41,000
<b>Incomes comprised in total income:</b>	
Long term capital gain u/s 112A	3,91,000
Other income	4,50,000
<b>Computation of tax liability:</b>	
Tax on LTCG (exceeding Rs. 1 lakh) u/s 112A = 10% on 2,91,000	29,100
Tax on other income of Rs. 4,50,000 at regular rates	10,000
Tax on total income	39,100
Less: Rebate u/s 87A: Not allowed as total income is > 5 lakh	-
	39,100
Add: Surcharge: Not applicable as total income is not > 50 lakh	-
	39,100
Add: HEC@ 4%	1,564



Tax liability	40,664
Tax liability (rounded off)	40,660

**B112. 111A/112A** – Gurmeet, a resident being 70 years of age, acquired 150 equity shares of JKL Ltd. on 15.5.2008 at Rs. 1,500 per share (STT paid). Bonus shares were allotted in the ratio of 1:1 on 15.2.2022. Dividend of Rs. 20 per share was received on 15.6.2022. Gurmeet sold his entire shareholding in the company on 15.12.2022 for Rs. 5,500 per share on the NSE (brokerage of Rs. 10,000 + STT paid). FMV of shares as on 31.1.2018 was Rs. 3,500. Compute the total income and tax liability of Gurmeet for AY 2023-24 assuming that he has not opted for section 115BAC and he does not have any other income.

■  
Computation of total income of Gurmeet for AY 2023-24

Particulars	Rs.	Rs.
<b>Long term capital gain u/s 112A on sale of original shares as STT is paid on acquisition and transfer and POH is &gt; 12 months</b>		
Full value of sale consideration = 150 × 5,500	8,25,000	
Less: Expenditure on transfer: Brokerage (50% of 10,000). STT is not allowed as deduction.	(5,000)	
Net consideration	8,20,000	
Less: COA = 150 × 3,500. COA of equity shares acquired before 1.2.2018 is higher of (A) cost of Rs. 1,500 per share and (B) lower of (a) FMV on 31.1.2018 of Rs. 3,500 per share or (b) FVC of Rs. 5,500 per share. Indexation is not allowed u/s 112A.	(5,25,000)	
Long term capital gain u/s 112A	2,95,000	2,95,000
<b>Short term capital gain u/s 111A on sale of bonus shares as sale is chargeable to STT and POH is not &gt; 12 months</b>		
Full value of sale consideration = 150 × 5,500	8,25,000	
Less: Expenditure on transfer: Brokerage (50% of 10,000). STT is not allowed as deduction.	(5,000)	
Net consideration	8,20,000	
Less: COA of bonus shares is Nil (special provision to determine COA u/s 112A is not applicable)	Nil	
Short term capital gain u/s 111A	8,20,000	8,20,000
<b>Income from other sources</b>		
Dividend = 300 × Rs. 20 per share		6,000
<b>Total income</b>		<b>11,21,000</b>

Computation of tax liability of Gurmeet for AY 2023-24

Unexhausted basic exemption limit = Basic exemption limit of 3,00,000 – Other income of 6,000 = 2,94,000. For maximum benefit, this should first be adjusted against capital gain u/s 111A and then u/s 112A.

Particulars	Rs.
Tax on STCG u/s 111A @ 15% of 5,26,000 (8,20,000 – UBEL of 2,94,000)	78,900
Tax on LTCG u/s 112A (exceeding Rs. 1 lakh), i.e., @ 10% of 1,95,000	19,500
Tax on dividend income of 6,000	Nil
	98,400
Less: Rebate u/s 87A: Not available as total income is > 5 lakh	-
	98,400
Add: Surcharge: Not applicable as total income is not > 50 lakh	-
	98,400
Add: HEC @ 4%	3,936
Tax payable	1,02,336
Tax payable (rounded off)	1,02,340

**B113. 112, 112A – CA2019(NOV) (modified)** – Rajan, a resident of age 30 years, provides you with the following details with regard to sale of certain securities by him during FY 2022-23:

- Sold 10,000 shares of A Ltd. on 5.4.2022 @ Rs. 650 per share – A Ltd. is a listed company. These shares were acquired by Rajan on 5.4.2016 @ Rs. 100 per share. STT was paid both at the time of acquisition as well as at the time of transfer of such shares which was affected through a recognized stock exchange. On 31.1.2018, the shares of A Ltd. were traded on a recognized stock exchange as under: Highest price Rs. 300 per share, Average price Rs. 290 per share, Lowest price Rs. 280 per share.
- Sold 1,000 units of B Mutual Fund on 20.4.2022 @ Rs. 50 per unit – B Mutual Fund is an equity oriented fund. These units were acquired by Rajan on 15.4.2017 @ Rs. 10 per unit. STT was paid only at the time of transfer of such units. On 31.1.2018, the

NAV of these units was Rs. 55 per unit.

3. Sold 100 shares of C Ltd. on 25.4.2022 @ Rs. 208 per share – C Ltd. is an unlisted company. These shares were issued by the company as bonus shares on 30.9.1997. The fair market value of these shares on 1.4.2001 was Rs. 50 per share.

Calculate the amount taxable as capital gain and also calculate tax on such gains for AY 2023-24 assuming that the other incomes of Rajan amount to Rs. 4,00,000. Assume that the assessee has not opted for section 115BAC.

■ *Computation of capital gain and tax liability in the hands of Rajan for AY 2023-24*

Particulars	Rs.
<b>Sale of 10,000 listed shares of A Ltd. on 5.4.2022 @ Rs. 650 per share</b>	
Full value of consideration = 10,000 × 650	65,00,000
Less: COA per share = Higher of (A) COA (i.e., 100 per share) and (B) lower of FMV on 31.1.2018 of 300 per share or FVC of 650 per share (i.e., 300 per share) = 300 per share. COA = 10,000 × 300 per share. Benefit of indexation not is available u/s 112A.	(30,00,000)
Long term capital gain u/s 112A: As POH is > 12 months and STT is paid on purchase and sale.	35,00,000
<b>Sale of 1,000 units of B Mutual Fund on 20.4.2022 @ Rs. 50 per unit</b>	
Full value of consideration = 1000 × 50	50,000
Less: COA per unit = Higher of (A) COA (i.e., 10 per unit) and (B) lower of FMV on 31.1.2018 of 55 per unit (NAV) and FVC of 50 per unit (i.e., 50 per unit) = 50 per unit. COA = 1000 × 50 per unit. Indexation is not available u/s 112A.	(50,000)
Long term capital gain u/s 112A: As POH is > 12 months and STT is paid on sale (Payment of STT on acquisition is not a condition for unit of EOF).	Nil
<b>Sale of 100 unlisted shares of C Ltd. on 25.4.2022 @ Rs. 208 per share</b>	
Full value of consideration = 100 × 208	20,800
Less: ICOA = COA × (CII of 2022-23 / CII of 2001-02) = 5,000 (100 shares @ 50 per share) × (331 / 100). COA of bonus shares is Nil but FMV on 1.4.2001 can be substituted. Indexation is available u/s 112.	(16,550)
Long term capital gain u/s 112: Since shares are unlisted and POH is > 24 months	4,250
<b>Computation of tax for AY 2023-24</b>	
Tax on capital gain u/s 112A (exceeding Rs. 1 lakh) = 10% of 34,00,000	3,40,000
Tax on capital gain u/s 112 @ 20% of 4,250	850
Tax on other income of 4,00,000 at regular rates	7,500
Tax on total income	3,48,350
Less: Rebate u/s 87A (not available as total income is > 5 lakh)	-
Add: Surcharge (not applicable as total income is up to 50 lakh)	-
Add: HEC @ 4%	13,934
Tax liability	3,62,284
<b>Tax liability (rounded off)</b>	<b>3,62,280</b>

*Mistake by students – Incorrect computation of COA of shares of A Ltd. Indexation provided u/s 112A.*

**B114. 45(2)/112/112A – CA2020(NOV)** – Govind purchased 600 shares of Y Ltd. at Rs. 130 per share on 26.2.1979. Y Ltd. issued him 1,200 bonus shares on 20.2.1984. The fair market value of these shares at Mumbai Stock Exchange as on 1.4.2001 was Rs. 900 per share and Rs. 2,000 per share as on 31.1.2018. On 31.1.2020, he converted 1,000 shares as his stock in trade. The shares were traded at Mumbai Stock Exchange on that date at a high of Rs. 2,200 per share and closed for the day at Rs. 2,100 per share. On 7.7.2022, Govind sold all 1,800 shares @ Rs. 2,400 per share at Mumbai Stock Exchange and STT was paid. Compute total income of Govind for AY 2023-24.

■ *Computation of total income of Govind for AY 2023-24*

Particulars	600 original shares	400 bonus shares	800 bonus shares
<b>Long term capital gain u/s 45(2) on conversion of 1,000 shares into stock in trade – Taxable in AY 2023-24 (year of sale of stock-in-trade)</b>			
Full value of consideration = FMV on date of conversion of 31.1.2020 @ 2,200 per share (see Note)	13,20,000	8,80,000	-
Less: ICOA = COA × (CII of 2019-20 being year of conversion / CII of 2001-02) COA per share = Higher of actual cost or FMV on 1.4.2001 = 900. ICOA per share = 900 × (289/100) = 2,601. COA is not computed on the basis of FMV on 31.1.2018	(15,60,600)	(10,40,400)	-

since conversion is not covered u/s 112A but u/s 112 (since STT is not paid on conversion into stock-in-trade)			
Long term capital gain (loss)	(2,40,600)	(1,60,400)	-
<b>Business income on sale of 1,000 shares held as stock-in-trade – Taxable in AY 2023-24 (year of sale of stock-in-trade)</b>			
Sale consideration @ 2,400 per share	14,40,000	9,60,000	-
Less: Cost = FMV on the date of conversion	(13,20,000)	(8,80,000)	-
Business income <sup>1</sup>	1,20,000	80,000	-
<b>Long term capital gain on sale of 800 bonus shares – Taxable in AY 2023-24</b>			
Full value of consideration @ 2,400 per share	-	-	19,20,000
Less: COA per share = Higher of (A) cost of 900 and (B) lower of FMV on 31.1.2018 of 2,000 or FVC of 2,400 = 2,000. Indexation is not available u/s 112A.	-	-	(16,00,000)
Long term capital gain u/s 112A (as STT is paid on transfer; STT is not required to be paid on acquisition as shares are acquired as bonus shares and are also acquired before 1.10.2004 being the date when STT came into force)	-	-	3,20,000
<b>Computation of total income for AY 2023-24</b>			
Business income = 1,20,000 + 80,000			2,00,000
Long term capital gain of 3,20,000 — Set off of long term capital loss of 4,01,000 (2,40,600 + 1,60,400) = Loss of 81,000 is to be carried forward to the next AY u/s 74 (see para 191 of Concepts Book)			-
<b>Total income</b>			<b>2,00,000</b>

**Note:** FMV on 31.1.2018 is not relevant in determining FMV on 31.1.2020. As per section 2(22B) (see para 130 of Concepts Book), fair market value, in relation to a capital asset, means the price that the capital asset would ordinarily fetch on sale in the open market on the relevant date. Since the highest and closing prices are given in the question, FMV for the purpose of this solution has been taken to be the highest price. Alternatively, closing price can also be taken and the answer worked out accordingly.

### COMPREHENSIVE

**B115. MASTER QUESTION** - Compute the tax liability of Swarn, a resident individual aged 45 years, staying in his self-owned residential house in Delhi and running a retail business in gift items, for the AY 2023-24, from the following particulars.

1. Stock-in-trade sold during the year included a painting, put up at his residence, which he converted into inventory on 1.7.2019 (amount recorded in books was Rs. 40,000 and fair market value on this date was Rs. 45,000). The painting was purchased by him for Rs. 25,000 on 1.8.2016 and ultimately sold as stock-in-trade for Rs. 50,000 on 1.8.2022. Excluding this item of sale, income from business computed under the head 'PGBP' amounted to Rs. 1,00,000.
2. He sold a wardrobe (acquired on 14.7.2016 for Rs. 75,000) used by his minor child at residence, for Rs. 50,000 on 1.4.2022.
3. He had purchased land in a village situated 5 kms (measured aerially) from the local limits of Ranchi (city with population of 15 lakh as per the last census). The land was purchased for Rs. 10 lakh on 1.11.2011 and used for rice farming activities (FMV and SDV on this date were Rs. 10.50 lakh and Rs. 11 lakh, respectively). He sold the land to Rajat for Rs. 30 lakh on 10.2.2023. Rajat paid token money of 10% through account payee cheque on 1.1.2023, i.e., the date of signing the agreement of sale. SDV of land on 1.1.2023 and 10.2.2023 was Rs. 35 lakh and Rs. 36 lakh, respectively. Swarn did not dispute the SDV before any authority but claimed that it was more than the FMV of the property. Consequently, the AO referred the valuation to the DVO who determined the value of land at Rs. 34 lakh. Earlier to this sale, Swarn had agreed to sell the land to Jay and had received Rs. 1 lakh as down payment on 1.8.2018. However, due to default in complying with the agreement, he forfeited the down payment on 1.9.2018. Brokerage of 1% was paid both on purchase and sale of land.
4. He exchanged some silver ornaments for gold jewellery with Harsh on 1.4.2022 (FMV of gold jewellery was Rs. 20 lakh on 1.4.2022 and Rs. 25 lakh on 31.3.2023). He had inherited the ornaments from his father upon his death on 1.12.2020. His father had, in turn, received these as gift from his brother on 1.12.2019 who had purchased these for Rs. 5 lakh on 1.12.2016. Cost of improvement incurred by Harsh on 15.12.2020 was Rs. 50,000.
5. He owned a residential house in Jaipur which was compulsorily acquired by the State Government on 10.1.2022. It was purchased on 1.6.1996 for Rs. 10 lakh. Stamp duty of 2% and brokerage of 1% was paid on purchase. FMV and SDV of the house on 1.4.2001 were Rs. 15 lakh and Rs. 12 lakh, respectively. Swarn constructed a floor at a cost of Rs. 1 lakh (completed on 1.6.1998), added a room at a cost of Rs. 2 lakh (construction completed on 1.6.2014) and made significant alterations costing Rs. 1 lakh (completed on 15.3.2021). He also incurred expenses of Rs. 30,000 on 1.8.2016 on painting and routine repair work. Earlier, Swarn had negotiated to sell the house to Prem but due to failure of Prem to honour the conditions of the agreement,

<sup>1</sup> STT payable @ 0.1% is deductible u/s 36(1)(xv) in computing business income since income is taxable under the head PGBP [para 108 of Concepts Book]. However, it has not been deducted in the ICAI suggested answer.

- he forfeited Rs. 2 lakh on 1.1.2010, which was received as down payment. Consequent to the compulsory acquisition, Swan received a compensation of Rs. 50 lakh on 25.10.2022. On appeal, the Court granted interim additional compensation of Rs. 10 lakh which was paid on 1.12.2022. The Court passed its final order on 1.2.2023 and granted final further additional compensation of Rs. 5 lakh which was paid on 15.4.2023. Litigation expenses for appeal, incurred during PY 2022-23, amounted to Rs. 50,000. Swarn received interest on delayed compensation on 15.3.2023 amounting to Rs. 30,000.
6. He had purchased 100 corporate bonds of JKL Ltd. for Rs. 1,000 per bond on 1.3.2021. The bonds were listed and he sold these on NSE @ Rs. 1,500 per bond on 10.4.2022.
  7. He transferred 1,000 units of Reliance Equity Fund, acquired @ Rs. 100 per unit on 1.1.2015, for Rs. 150 per unit on 1.1.2023, after paying STT of 0.001%. The fund invested 70% of its proceeds in equity shares of Indian companies listed on Indian stock exchanges and 30% in debt instruments. The units were not listed on 31.1.2018 and the NAV on this date was Rs. 90 per unit.
  8. Swarn had purchased 1,000 unlisted preference shares of BCD Pvt. Ltd., an Indian company, on 1.6.2020 @ Rs. 750 per share which were converted into equity shares on 1.1.2021 in the ratio of two equity shares for every preference share held. On 1.11.2021, the company sub-divided each equity share into five equity shares. He sold 50% of his holding on 1.4.2022 @ Rs. 100 per share when the FMV, determined under Rule 11UAA, was Rs. 150 per share. Shares were not listed and STT was not paid on sale. The remaining shares were purchased by the company in a scheme of buy-back for Rs. 125 per share on 1.8.2022.
  9. During the year, he sold 140 listed equity shares of Rich Bank Ltd. @ Rs. 1,000 per share on 1.9.2022. He had originally acquired 100 shares on 1.5.1998 @ Rs. 200 per share. FMV of share on 1.4.2001 was Rs. 300 per share. The company allotted bonus shares in the ratio of 1:2 on 1.5.2015. On 1.4.2022, he was offered shares in a rights issue in the ratio of 1:3 @ 500 per share. He renounced 50% of his entitlement @ Rs. 200 per share and subscribed to the balance shares which were allotted on 1.5.2022. STT @ 0.1% was paid on purchase and sale, where applicable. The shares were sold in the order they were first acquired. Highest quoted price on the stock exchange on 31.1.2018 was Rs. 600 per share.
  10. Swarn used to be employed with Jack and Jill Ltd. when he exercised the option to purchase equity shares of the company under an ESOP scheme on 1.4.2016 and was allotted 1,000 shares @ Rs. 100 per share on 15.4.2016. FMV of shares on these dates was Rs. 500 per share and Rs. 550 per share, respectively. He sold all the shares on 14.1.2023 @ Rs. 1,500 per share. The shares were not traded on the stock exchange on 31.1.2018 but were traded last on 25.1.2018 when the highest, average and the lowest price quoted was Rs. 1,200, Rs. 1,100 and Rs. 1,000, respectively. STT was paid on sale @ 0.1% and it was not payable on allotment since shares were directly issued by the company.
  11. Swarn transferred his gold jewellery to his friend on 1.5.2022 who, in turn, agreed to provide him financial advisory services on demand for his lifetime. The market value of jewellery, claimed by Swarn, was Rs. 9 lakh on 1.5.2022 and it was purchased for Rs. 2 lakh on 1.1.1997. FMV on 1.4.2001 was Rs. 1,76,000. The AO was of the opinion that FMV on 1.5.2022 should be Rs. 9,50,000. Hence, he referred the valuation to the valuation officer who determined the FMV at Rs. 10,00,000.
  12. During the year, Swarn sold Machine D for Rs. 80,000 on 1.11.2022, forming part of the block of assets used by him in his business and entitled to 15% rate of depreciation. WDV of the block, comprising Machine C and D was Rs. 1,00,000 on 1.4.2022. During the year, Machine C was destroyed in a fire. On 10.2.2023, the insurance company paid compensation of Rs. 75,000 in this respect. Swarn purchased Machine G on 1.3.2023 for Rs. 25,000 which was put to use on 15.3.2023. Insurance premium paid for the machines on 1.5.2022 was Rs. 10,000.
  13. Swarn sold the self-created brand name of his business (which he started in June 2012) to another retailer for Rs. 10 lakh on 12.6.2022. Expenditure on transfer amounted to Rs. 10,000. He also sold a business license to the same retailer for Rs. 5 lakh on the same date which he had acquired from his father as a gift. His father had acquired it by paying Rs. 2 lakh on 1.12.2014.
  14. During the year, Swarn sold an independent division of his business to Swing Pvt. Ltd. on 15.12.2022 for a lump sum consideration of Rs. 49 lakh. The division was started on 12.4.2015. The Tax WDV of block of assets of this division is Rs. 10 lakh, the book value of other assets is Rs. 35 lakh and value of liabilities as per books is Rs. 5 lakh. The book value of other assets includes an amount of Rs. 5 lakh attributed to upward revaluation of land. FMV of the division as on 15.12.2022 was determined in the prescribed manner at Rs. 50 lakh.
  15. He owned 1,000 equity shares in Cayman Ltd. (purchased @ Rs. 1,000 per share on 15.12.2021). This company was amalgamated with Jayman Ltd., an Indian company on 1.7.2022 pursuant to which Swarn transferred his shares in Cayman Ltd. in consideration of allotment of 2,000 shares in Jayman Ltd. All the shares in Jayman Ltd. were sold on 1.12.2022 for Rs. 750 per share. STT @ 0.1% was paid on sale.
  16. He purchased a residential house in Hyderabad for Rs. 10 lakh on 1.8.2023 and deposited Rs. 8 lakh in the Capital Gain Account Scheme (CGAS) on 1.10.2023. He filed his return of income on 31.10.2023 being the due date u/s 139(1). He also purchased bonds of NHAI for Rs. 20 lakh on 15.3.2023 and of RECL for Rs. 15 lakh on 15.8.2023. He had planned to purchase another residential house in Surat within the exemption timeline provided u/s 54.
  17. He utilized the CGAS deposit to purchase the house in Surat on 1.10.2024 for Rs. 7 lakh. However, the house in Hyderabad was sold on 1.5.2026 for Rs. 14 lakh (SDV on this date was Rs. 13.5 lakh).
  18. He deposited Rs. 1,50,000 in his PPF account on 31.3.2023.
  19. Swarn had not opted for section 115BAC.

■

*Computation of total income of Swarn for AY 2023-24*

Particulars	Rs.	Rs.	Rs.
<b>Short term capital gain chargeable u/s 111A</b>			
Sale of equity shares of Jayman Ltd. (Note 14)		5,00,000	5,00,000
<b>Other short term capital gain</b>			
Conversion of painting into stock-in-trade (Note 1)		20,000	
Sale and buy back of unlisted shares of BCD Pvt. Ltd. (Note 7)		3,75,000	
Sale of shares of Rich Bank (Note 8)		5,000	
Transfer of depreciable assets (Note 11)		30,000	4,30,000
<b>Long term capital gain chargeable u/s 112A</b>			
Sale of units of Reliance equity fund (Note 6)		50,000	
Sale of shares of Rich Bank (Note 8)		56,000	
Sale of shares of Jack and Jill Ltd. received under ESOP (Note 9)		3,00,000	4,06,000
<b>Long term capital gain chargeable u/s 112</b>			
Sale of wardrobe (it is a personal effect used by dependant family member, hence, not a capital asset)			-
Sale of land in village outside Ranchi (Note 2)	15,53,098		
• Less: Exemption u/s 54EC (Note 15)	(15,53,098)	Nil	
Exchange of silver ornaments (Note 3)		13,18,123	
Compulsory acquisition of residential house (Note 4)	24,10,517		
• Less: Exemption u/s 54, 54EC (Note 15)	(22,46,902)	1,63,615	
Sale of listed bonds (Note 5)		50,000	
Transfer of gold jewellery to friend (Note 10)		3,66,000	
Sale of brand name and license (Note 12)		12,14,167	
Sale of independent division of business (Note 13)		15,00,000	46,11,905
<b>Income under the head 'Profits and gains of business or profession'</b>			
Business income on sale of painting = Rs. 50,000 (sale price) – Rs. 45,000 (FMV on date of conversion)		5,000	
Other business income		1,00,000	1,05,000
<b>Income under the head 'Income from other sources'</b>			
Interest on delayed compensation u/s 56(2)(viii) = 30,000 less 50% deduction			15,000
<b>Gross total income</b>			<b>60,67,905</b>
Less: Deduction u/s 80C for deposit in PPF (not allowed from capital gain u/s 111A, 112A and 112)			(1,50,000)
<b>Total income</b>			<b>59,17,905</b>

*Computation of tax liability of Swarn for AY 2023-24*

Particulars	Rs.
Tax on short term capital gain u/s 111A: 15% of 5,00,000	75,000
Tax on long term capital gain u/s 112A (exceeding Rs. 1 lakh): 10% of 3,06,000	30,600
Tax on long term capital gain u/s 112 on sale of listed corporate bonds: 10% of 50,000 (without indexation)	5,000
Tax on long term capital gain u/s 112 (other than on sale of listed corporate bonds): 20% of 45,61,905	9,12,381
Tax on other income of 4,00,000 (total income – incomes taxable above at special rates)	7,500
Tax on total income	10,30,481
Less: Rebate u/s 87A (not available since total income is > 5 lakh)	-
	10,30,481
Add: Surcharge @ 10% since total income exceeds 50 lakh and is up to 1 crore	1,03,048
	11,33,529
Add: HEC @ 4%	45,341
<b>Tax liability</b>	<b>11,78,870</b>

*Note 1 – Capital gain u/s 45(2) on conversion of painting into stock-in-trade, taxable for AY 2023-24, i.e., the year in which stock-in-trade is sold*

Particulars	Rs.
FVC: FMV on date of conversion	45,000
Less: COA (indexation is not available since POH is not > 36 months till date of conversion)	(25,000)
Short term capital gain	20,000

*Note 2 – Capital gain on sale of urban agricultural land (since situated within 8 km aerial distance from local limit of Ranchi)*

Particulars	Rs.
FVC u/s 50C = SDV of 35 lakh since it is > 110% of consideration of 30 lakh. SDV on date of agreement is taken since part consideration is received on this date by a specified mode. But since DVO valuation of 34 lakh is less than SDV, 34 lakh is taken as the full value of consideration.	34,00,000
Less: Expenditure on transfer: Brokerage of 1% of 30 lakh	(30,000)
Net consideration	33,70,000
Less: ICOA = COA × (CII of 2022-23 / CII of 2011-12) = 10.10 lakh × (331/184). Brokerage of 1% is added to COA. Advance money forfeited on or after 1.4.2014 is taxable under the head IFOS in the year of forfeiture (AY 2019-20 in this case) and is not deducted from COA u/s 51.	(18,16,902)
Long term capital gain (since POH is > 24 months)	15,53,098

*Note 3 – Capital gain on exchange of silver ornaments for gold jewellery*

Particulars	Rs.
FVC = FMV of gold jewellery on the date of transfer since it is a case of exchange	20,00,000
Less: ICOA = COA × (CII of 2022-23 / CII of 2016-17) = 5 lakh × (331/264). COA of the last previous owner is taken who acquired it by a mode other than that referred u/s 49(1). POH and indexation is computed accordingly.	(6,26,894)
Less: ICOI = COI × (CII of 2022-23 / CII of 2020-21) = 50,000 × (331/301).	(54,983)
Long term capital gain (since POH, including that of previous owners, is > 36 months)	13,18,123

*Note 4 – Capital gain on compulsory acquisition of residential house taxable in AY 2023-24 in which compensation is received*

Particulars	Rs.
FVC = Initial compensation of 50 lakh + interim compensation of 10 lakh (included since final order is made in PY 2022-23). Final further additional compensation of 5 lakh is taxable in AY 2024-25 in which it is received.	60,00,000
Less: Litigation expenses	(50,000)
Net consideration	59,50,000
Less: ICOA = COA × (CII of 2021-22 / CII of 2001-02) = 10 lakh × (317/100). // COA = Higher of (a) cost of 10.3 lakh (10 lakh + 3% stamp duty and brokerage) or (b) FMV on 1.4.2001 (which can't exceed SDV on this date) of 12 lakh = 12 lakh. From this, advance money forfeited before 1.4.2014 of Rs. 2 lakh is deducted u/s 51. Thus, COA = 10 lakh. // Year of transfer for computing indexed COA and COI is the year of compulsory acquisition.	(31,70,000)
Less: ICOI:	
• Construction of floor before 1.4.2001: Not considered	-
• Addition of room on 1.6.2014: COI × (CII of 2021-22 / CII of 2014-15) = 2 lakh × (317/240)	(2,64,167)
• Significant alterations on 15.3.2021: COI × (CII of 2021-22 / CII of 2020-21) = 1 lakh × (317/301)	(1,05,316)
• Cost of painting and routine repair work: Not considered since not capital expenditure	-
Long term capital gain (since POH is > 24 months)	24,10,517

*Note 5 – Capital gain on sale of listed bonds*

Particulars	Rs.
FVC = 100 bonds @ 1,500	1,50,000
Less: COA (indexation is not available on bonds) = 100 bonds @ 1,000	(1,00,000)
Long term capital gain (since bonds are listed and POH is > 12 months)	50,000

*Note 6 – Capital gain on sale of units of Reliance equity fund (being an equity oriented fund since at least 65% proceeds are invested in listed equity shares of domestic companies) – Covered u/s 112A since units are of EOF and STT is paid on sale*

Particulars	Rs.
FVC = 1,000 units @ 150 per unit	1,50,000
Less: Expenditure on transfer (STT is not deductible)	-
Net consideration	1,50,000
Less: COA: Since units of EOF covered u/s 112A are acquired before 1.2.2018, COA is higher of (A) cost of 100 and (B) lower of FMV on 31.1.2018 of 90 (NAV) or FVC of 150. Thus, COA is 100 per unit. Indexation is not allowed u/s 112A	(1,00,000)
Long term capital gain u/s 112A (since POH is > 12 months)	50,000

*Note 7 – Capital gain on sale and buy back of unlisted shares of BCD Pvt. Ltd.*

Particulars	Rs.
<b>Sale of shares on 1.4.2022</b>	
FVC = 5,000 shares @ Rs. 150 per share (i.e., FMV u/s 50CA since consideration is < FMV) 1,000 preference shares were converted to 2,000 equity shares (no capital gain arises on conversion by virtue of section 47(xb)). 2,000 equity shares were sub-divided into 10,000 equity shares (no capital gain arises on sub-division). Capital gain arises on sale of 50% holding, i.e., 5,000 shares	7,50,000
Less: COA: COA and POH is determined with reference to original preference shares. No indexation is allowed since gain is short-term as POH is not > 24 months. COA = 50% of 7,50,000 (1,000 preference shares @ 750 per share)	(3,75,000)
Short term capital gain	3,75,000
<b>Buy back of shares on 1.8.2022</b>	
Buy back of shares by a domestic company is exempt in the hands of shareholder u/s 10(34A). BCD Pvt. Ltd. will be liable to tax on distributed income u/s 115QA.	-

*Note 8 – Capital gain on sale of listed shares of Rich Bank Ltd.*

Particulars	Rs.	Rs.
<b>Shares acquired:</b>		
1. Original shares - 100 shares		
2. Bonus shares issued in the ratio of 1:2 - 50 shares		
3. Right shares issued in the ratio of 1:3 – 25 shares (50% of 50 shares subscribed)		
Shares are sold in the order they were first acquired, i.e., 100 original and 40 bonus shares		
<b>Long term capital gain on sale of 100 original shares</b> (chargeable u/s 112A since STT is paid on sale; STT is not payable on purchase since acquisition is before 1.10.2004, i.e., before STT came into force)		
FVC @ 1,000 per share	1,00,000	
Less: Expenditure on transfer: STT paid is not deductible	-	
Net consideration	1,00,000	
Less: COA (equity shares are referred u/s 112A and acquired before 1.2.2018) = Higher of (A) cost (i.e., 300 being the higher of cost or FMV on 1.4.2001) and (B) lower of FMV on 31.1.2018 of 600 or FVC of 1,000 (i.e., 600) = 600 per share. Indexation is not available u/s 112A.	(60,000)	
Long term capital gain u/s 112A	40,000	40,000
<b>Long term capital gain on sale of 40 bonus shares</b> (chargeable u/s 112A since STT is paid on sale; STT is not payable on acquisition since shares are issued by the company)		
FVC @ 1,000 per share	40,000	
Less: Expenditure on transfer: STT paid is not deductible	-	
Net consideration	40,000	
Less: COA (equity shares are referred u/s 112A and acquired before 1.2.2018) = Higher of (A) cost (i.e., Nil) and (B) lower of FMV on 31.1.2018 of 600 or FVC of 1,000 (i.e., 600) = 600 per share. Indexation is not available u/s 112A.	(24,000)	
Long term capital gain u/s 112A	16,000	16,000
<b>Total long term capital gain u/s 112A</b>		<b>56,000</b>
<b>Short term capital gain on renoucement of right entitlement</b>		
FVC: 25 shares @ 200 per share		5,000
Less: COA		Nil
<b>Short term capital gain</b>		<b>5,000</b>

*Note 9 – Capital gain on sale of shares of Jack and Jill Ltd. received under ESOP (chargeable u/s 112A since STT is paid on sale (not payable on acquisition) and gain is long-term as POH is > 12 months)*

Particulars	Rs.
FVC = 1,000 shares @ 1,500 per share	15,00,000
Less: Expenditure on transfer: STT paid is not deductible	-
Net consideration	15,00,000
Less: COA (equity shares referred u/s 112A and acquired before 1.2.2018) = Higher of (A) cost (i.e., 500 being FMV on the date of exercise of option) and (B) lower of FMV on 31.1.2018 of 1,200 (highest quoted price on the date immediately preceding 31.1.2018) or FVC of 1,500 (i.e., 1,200) = 1,200 per share. Indexation is not available u/s 112A.	(12,00,000)
Long term capital gain u/s 112A	3,00,000

*Note 10 – Capital gain on transfer of gold jewellery to friend*

Particulars	Rs.
FVC = FMV of asset transferred on the date of transfer of Rs. 9 lakh (u/s 50D) since full value of consideration is not ascertainable. However, AO can refer valuation to the Valuation Officer VO u/s 55A since he is of the opinion that FMV (of 9.5 lakh) exceeds the value claimed by Swarn by more than Rs. 25,000. Thus, FVC u/s 55A is the value determined by the Valuation Officer.	10,00,000
Less: ICOA = COA (higher of cost or FMV on 1.4.2001) × (CII of 2022-23 / CII of 2001-02) = 2 lakh × (331/100).	(6,62,000)
Long term capital gain (since POH is > 36 months)	3,38,000

*Note 11 – Capital gain on transfer of depreciable assets*

Particulars	Rs.
WDV of block of machinery (15% depreciation) as on 1.4.2022	1,00,000
Add: Actual cost of Machine G acquired on 1.3.2023 and put to use on 15.3.2023	25,000
Less: Moneys payable for Machine D sold during the year (sale price)	(80,000)
Less: Moneys payable for Machine C destroyed during the year (insurance compensation)	(75,000)
WDV of block for depreciation (cannot be negative)	Nil
Depreciation: No depreciation since WDV is nil though block continues to exist. Capital gains arise.	
<i>Computation of capital gain:</i>	
FVC on transfer of Machines C and D	1,55,000
Less: Expenditure on transfer (insurance premium is not an expenditure on transfer)	-
Net consideration	1,55,000
Less: WDV of block as on 1.4.2022	(1,00,000)
Less: Actual cost of Machine G acquired during the year	(25,000)
Short term capital gain	30,000

*Note 12 – Capital gain on transfer of brand name and license*

Particulars	Rs.	Rs.
<i>Sale of self-generated brand name of business</i>		
FVC	10,00,000	
Less: Expenditure on transfer	(10,000)	
Net consideration	9,90,000	
Less: COA	Nil	
Long term capital gain	9,90,000	9,90,000
<i>Sale of business license</i>		
FVC	5,00,000	
Less: ICOA = COA × (CII of 2022-23 / CII of 2014-15) = 2 lakh × (331/240).	(2,75,833)	
Long term capital gain	2,24,167	2,24,167
Total long term capital gain		12,14,167



**Note 13 – Capital gain on slump sale of business division u/s 50B**

Particulars	Rs.
FVC = FMV of division as on 15.12.2022	50,00,000
Less: COA & COI = Net worth of division = WDV of block of depreciable assets (10 lakh) + Book value of other assets (30 lakh, i.e., 35 lakh — revaluation of 5 lakh) – Value of liabilities as per books (5 lakh). Indexation not allowed u/s 50B	(35,00,000)
Long term capital gain (since POH of division is > 36 months)	15,00,000

**Note 14 – Capital gain on sale of equity shares of Jayman Ltd. (transfer of shares on amalgamation is exempt u/s 47(vii), subsequent sale is liable to capital gain, chargeable u/s 111A as gain is short-term capital gain and STT is chargeable on sale)**

Particulars	Rs.
FVC = 2,000 shares @ 750 per share	15,00,000
Less: Expenditure on transfer (STT is not deductible)	-
Net consideration	15,00,000
Less: COA (with reference to Cayman Ltd.) = 1,000 shares @ 1,000 per share	(10,00,000)
Short term capital gain u/s 111A	5,00,000

**Note 15 – Exemptions from capital gain**

Particulars	Land	House
Eligible exemptions: 1: U/s 54EC – On long term capital gain arising on sale of land and house – Upon investment in bonds of NHAH and RECL 2: U/s 54 – On long term capital gain arising on sale of house – Upon purchase of house 3: U/s 54F – On long term capital gain arising on sale of any asset (other than house) – Upon purchase of house		
Long term capital gain	15,53,098	24,10,517
Less exemption u/s 54F: Not advisable since Swarn already owns a residential house in Delhi in which he stays and he would own an extra house in Surat as planned, other than the house in Hyderabad. On purchase of house in Surat, exemption u/s 54F would be forfeited and would be taxable as LTCG.	-	-
Less exemption u/s 54EC: Since 54EC exemption can be applied both for sale of land and house but exemption u/s 54 can be applied only for sale of house, it is advisable to exhaust exemption u/s 54EC first. Exemption for RECL bonds: Not available for purchase of bonds on 15.8.2023 since it is not within 6 months after sale of land on 10.2.2023 or receipt of compensation for house on 25.10.2022 and 1.12.2022. Exemption for NHAH bonds = 20 lakh being purchase of bonds on 15.3.2023 (i.e., within 6 months after sale of land on 10.2.2023 and receipt of compensation for house on 25.10.2022 and 1.12.2022)	(15,53,098)	(4,46,902)
	Nil	19,63,615
Less exemption u/s 54: Cost of new asset = House in Hyderabad purchased within 2 years after receipt of compensation (10 lakh) + CGAS deposit (8 lakh), by the return due date	-	(18,00,000)
Balance long term capital gain	Nil	1,63,615

**Computation of capital gain for defaults committed u/s 54**

Particulars	Rs.
Long term capital gain for AY 2026-27 on CGAS deposit not utilized within 3 years from receipt of compensation for house = 8 lakh – 7 lakh. Since capital gain on house is not more than Rs. 2 crore, Swarn can purchase 2 residential houses in India u/s 54 within two years from receipt of compensation. It is assumed that he exercised this one-time option. Thus, purchase of Hyderabad house and Surat house can be covered by the exemption.	1,00,000
Long term capital gain for AY 2027-28 on sale of new asset u/s 54 (house in Hyderabad) within 3 years of its acquisition	
FVC u/s 50C = Consideration, since SDV is not more than 110% of consideration	14,00,000
Less: COA = Cost (10 lakh) – Capital gain exempted earlier (10 lakh)	Nil
Long term capital gain (since POH is > 24 months)	14,00,000

# MCQ

## CHARGEABILITY

**M1.** Subject to any special provision, capital gain is chargeable to tax in the PY in which:

- |                                      |  |
|--------------------------------------|--|
| (a) Capital asset is transferred     | (b) Consideration is actually received |
| (c) Agreement to transfer is entered | (d) Consideration is accrued           |

**M2.** Transfer of which of the following is not chargeable to capital gain?

- |  |                                |
|--|--------------------------------|
| (a) Stock in trade of business               | (b) Copyright used in business |
| (c) Securities held by FII as stock in trade | (d) Laptop used in office      |

**M3.** Transfer of which of the following is chargeable to capital gain?

- |                                   |                                      |
|-----------------------------------|--------------------------------------|
| (a) Raw material used in business | (b) Gold Deposit Bonds               |
| (c) Jewellery worn by assessee    | (d) Wearing apparel used by assessee |

**M4.** Romil owns four plots of land which he sold during the PY. Sale of which of these will not be chargeable to capital gain?

- |  |   |
|--|---|
| (a) Land used in agriculture and situated 8 km from local municipal limits of Colombo, Sri Lanka (population 7 lakh) | (b) Land used in poultry farming and situated 8 km from local municipal limits of Modinagar (population 1.5 lakh) |
| (c) Land used in growing crops and situated 10 km from local municipal limits of Kanpur (population 25 lakh)         | (d) Land used in agriculture and situated within local municipal limits of Varanasi (population 12 lakh)          |

**M5.** Shivam, aged 35 years, sold an agricultural land for Rs. 43 lakh on 14.8.2022 acquired at a cost of Rs. 41 lakh on 10.12.2021 situated 8.4 kms from the local limits of municipality having population of 5,00,000 and also sold another agricultural land for Rs. 53 lakh on 2.11.2022 acquired at a cost of Rs. 46 lakh on 25.2.2021 situated 1.2 kms from the jurisdiction of municipality having population of 22,000. What would be the amount of capital gain chargeable to tax in the hands of Shivam for AY 2023-24?

- |                      |                      |
|----------------------|----------------------|
| (a) STCG of 9,75,000 | (b) STCG of 7,00,000 |
| (c) LTCG of 2,54,325 | (d) LTCG of 17,940   |

**M6.** Which of the following transactions or events are taxable as capital gains?

- |   |   |
|---|---|
| (a) Compulsory acquisition of rural agricultural land for construction of expressway    | (b) Exchange of his car used for personal work for gold jewellery |
| (c) Conversion of his personal wearing apparel into stock in trade of clothing business | (d) Amount received on maturity of zero coupon bond               |

**M7.** Ram undertook certain transactions during the PY 2022-23. He seeks your advise as to which of the following transactions would not be liable to capital gain in his hands for AY 2023-24?

- |   |  |
|---|--|
| (a) Transferred his membership in Super housing cooperative society to Ramesh on 1.6.2022                   | (b) Executed a written agreement with Rohit to sell his house and handed over possession on 1.3.2023. Rohit has paid 50% consideration and promised to pay the balance but the sale deed has not yet been executed |
| (c) Received Rs. 10 lakh as advance money for sale of his plot of land in Delhi to be executed on 15.4.2023 | (d) Sold equity shares of Tata Sons Ltd. on 1.1.2023 which were held as investment since last 10 years.  |

**M8.** Which of the following capital assets, held by Raju for 15 months before sale, would give rise to long term capital gain?

- |  |   |
|--|---|
| (a) Unlisted preference shares in Raymond Ltd. | (b) Units of Kotak Golden Reward Fund which invests 50% of its funds in debt and 50% in equity shares of Indian companies listed on NSE |
| (c) NHAI bonds listed on BSE                   | (d) Loose diamonds held as stock in trade of his jewellery business   |

**M9.** Which of the following capital assets, held by Raju for 30 months before sale, would give rise to short term capital gain?

- |   |  |
|---|--|
| (a) Equity shares of Facebook, listed on NYSE   | (b) Commercial building situated in Mumbai |
| (c) Units of Axis Bluechip fund investing 90% of its funds in equity shares of Indian companies listed on BSE | (d) Unlisted debentures of Sinclair Ltd.   |

**M10.** Raje sold a piece of ancient sculpture, decorated at his residence, for Rs. 3 lakh, during the PY 2022-23. For how long should he have held the sculpture, so as to claim capital gain as long-term capital gain?

- |               |               |
|---------------|---------------|
| (a) 12 months | (b) 24 months |
| (c) 36 months | (d) 48 months |

**M11.** What is not deducted from the full value of consideration to arrive at capital gain on transfer of capital asset?

- (a) Expenditure on transfer incurred by transferor (b) Expenditure on acquisition incurred by transferor  
 (c) Capital expenditure in making additions to the asset before 1.4.2001 (d) Capital expenditure in making alterations to the asset on or after 1.4.2001

**M12.** Expenditure incurred after acquisition of asset is part of cost of acquisition.

- (a) True (b) False

**M13.** Option to substitute FMV as on 1.4.2001 for cost of acquisition is available in case of assets forming part of block of assets on which depreciation is allowed.

- (a) True (b) False

**M14.** Revenue expenditure incurred in respect of capital asset on or after 1.4.2001 is part of cost of improvement.

- (a) True (b) False

**M15.** If a building is held by the assessee for 36 months, cost of improvement incurred 14 months before transfer, is to be indexed.

- (a) True (b) False

**M16.** Indexation is available on which of the following transfers made by Rohit, a resident, during the PY?

- (a) Sale of unlisted equity shares held for 30 months (b) Sale of equity shares listed on BSE chargeable u/s 111A  
 (c) Transfer of machinery in respect of which depreciation is allowed on the block of assets (d) Sale of units of equity oriented mutual fund chargeable u/s 112A

**M17.** Heera, maintaining books of account on cash basis, sold his shop to Meera on 15.6.2022. Meera discharged the consideration by paying Rs. 10 lakh on 15.3.2022, Rs. 5 lakh on 15.6.2022 and handing over the possession of her gold jewellery (worth Rs. 15 lakh on 1.4.2022 and Rs. 18 lakh on 15.6.2022). The shop was gifted to Heera by his father on 1.1.2022 who purchased it from Zehra for Rs. 12 lakh on 1.7.2020. Capital gain in the hands of Heera for AY 2023-24 will be:

- (a) STCG of 21,00,000 (b) STCG of 11,00,000  
 (c) LTCG of 20,10,000 (d) LTCG of 2,10,000

**M18.** Juhi, stuck in a criminal litigation, handed over some precious stones which she owned, to Jasbir, her lawyer, on 15.12.2022, for defending her case in the Court of law. She had bought these stones for Rs. 2 lakh on 15.6.2020. These stones were worth Rs. 5 lakh in the market on 15.12.2022. Find out the capital gain chargeable to tax in the hands of Juhi for AY 2023-24.

- (a) Nil (b) STCG (loss) of 2,00,000  
 (c) LTCG of 2,80,623 (d) STCG of 3,00,000

**M19.** Sawan purchased a residential house from Sohan during the PY 2022-23 for Rs. 50 lakh. Sohan had purchased the house during PY 2021-22 for Rs. 30 lakh. Sawan paid brokerage of 0.5% to the property dealer and incurred stamp duty charges of Rs. 1 lakh towards registration of the property in his name. Sohan paid 1% to the property dealer both at the time of purchase and sale. Additionally, he incurred Rs. 50,000 as legal charges for drafting the sale contract. Capital gain in the hands of Sohan for AY 2023-24 will be:

- (a) STCG of 20,00,000 (b) STCG of 12,70,000  
 (c) STCG of 18,70,000 (d) LTCG of 18,70,000

**M20.** Yuvi acquired a residential flat in Chennai for Rs. 50 lakh on 1.1.2001. FMV of the flat on 1.4.2001 was Rs. 60 lakh while SDV on that date was Rs. 55.5 lakh. He sold the flat on 15.1.2023 for Rs. 2 crore. He incurred 1% brokerage on purchase as well as sale. He had to spend Rs. 20,000 on painting and routine repairs on 10.4.2015. Compute the long term capital gain for AY 2023-24.

- (a) 19,29,500 (b) 13,29,500  
 (c) 23,29,500 (d) 14,29,500

**M21.** Shaivi acquired a building in Goa for Rs. 20 lakh on 1.1.2010. FMV and SDV on this date were Rs. 22 lakh and Rs. 25 lakh, respectively. She spent Rs. 25,000 on 15.6.2017 on current repairs. She constructed a room for Rs. 5 lakh on 15.8.2021. She sold the building for Rs. 50 lakh on 1.1.2023. Compute the capital gain for AY 2023-24.

- (a) LTCG of 25,876 (b) LTCG (loss) of 4,945  
 (c) LTCG of 4,945 (d) LTCG of 6,085

**M22.** Advance money received in connection with a failed transfer of capital asset and forfeited on 1.5.2010 by the previous owner, who gifted the asset to the assessee, is:

- (a) Taxable as IFOS in the hands of previous owner (b) Taxable as IFOS in the hands of assessee  
 (c) Deducted from cost of acquisition of the asset (d) No tax implication arises

**M23.** Rajan acquired a shop in a commercial complex in Mumbai for Rs. 10 lakh on 1.2.1995. FMV and SDV on 1.4.2001 were Rs. 15 lakh and Rs. 16 lakh, respectively. Rajan unsuccessfully tried to sell the shop to Sajan during the PY 2005-06 and he had to forfeit Rs. 2 lakh received as advance in terms of the agreement to sell. Later, he gifted the shop to Raju, his grandson on 15.11.2010. Raju negotiated to sell the shop to Somil during January 2011 but was unsuccessful and he had to forfeit advance of Rs. 1 lakh in terms of

the agreement. Raju later struck a deal with Monu to sell the shop during June 2019 but due to failed negotiations, he had to forfeit the advance of Rs. 2 lakh. He was able to finally sell the shop to Sonu during January 2023 for Rs. 80 lakh. Compute the capital gain in the hands of Raju for AY 2023-24.

- (a) LTCG 27,04,000 (b) LTCG 33,66,000  
(c) LTCG 39,23,400 (d) LTCG 35,62,000

**M24.** In which of the following cases, is cost of capital asset taken to be the cost to the previous owner?

- (a) Received as gift from previous owner (b) Inherited from previous owner  
(c) Acquired under the will of previous owner (d) All the above

**M25.** If cost of acquisition of capital asset to previous owner cannot be ascertained, it means the FMV on the date the capital asset was acquired by the assessee from the previous owner.

- (a) True (b) False

**M26.** Y purchased a flat on 1.6.2010 and gifted it to Z on 1.8.2019. Z sold the flat on 1.6.2022. Indexation of cost of acquisition of the flat will run from:

- (a) PY 2019-20 (b) PY 2010-11  
(c) PY 2001-02 (d) No indexation since gain is STCG

**M27.** B constructed a building for Rs. 5 lakh on 1.5.1995 and incurred Rs. 1 lakh in constructing an additional room on 1.5.1996. He gifted the building to C, his daughter, on 1.5.1997. D purchased the building from C for Rs. 10 lakh on 1.5.1999 and incurred Rs. 1 lakh on 1.1.2000 in adding a floor. FMV and SDV of building on 1.4.2001 were Rs. 9 lakh and Rs. 12 lakh, respectively. G acquired the said building from D on 1.5.2005 under his will. J inherited the building on 1.5.2010 consequent to death of G and sold it to K on 1.5.2022 for Rs. 50 lakh (SDV on this date was Rs. 50 lakh). Capital gain in the hands of J for AY 2023-24 will be:

- (a) LTCG 17,97,557 (b) LTCG 16,27,328  
(c) LTCG 16,90,000 (d) LTCG 18,30,000

**M28.** Z Ltd. is a wholly owned subsidiary company of Y Ltd. Y Ltd. transfers a capital asset (acquired in 2002 for Rs. 50,000) on 16.6.2022 for Rs. 3.7 lakh to Z Ltd. Z Ltd. is an Indian company. Y Ltd. is a foreign company. Which of the following is correct?

- (a) Any transfer between holding company and its wholly owned subsidiary company is not treated as a transfer. Hence, no capital gain will arise. (b) Any transfer between holding company and its wholly owned subsidiary company is not treated as a transfer if transferee is an Indian company. Hence, no capital gain will arise.  
(c) Any transfer between holding company and its wholly owned subsidiary company is treated as transfer as there is no specific exclusion in this regard. Hence, capital gain will arise. (d) None of the above

#### SPECIAL PROVISIONS FOR DEPRECIABLE ASSETS

**M29.** Indexation is available while computing capital gain on transfer of depreciable assets forming part of block of assets.

- (a) True (b) False

**M30.** Depreciation is allowed where at the end of the previous year:

- (a) Any asset exists in the block and WDV is positive (b) Any asset exists in the block and WDV is negative  
(c) No asset exists in the block but WDV is positive (d) All the above

**M31.** Vandana started a business on 1.4.2022 and purchased a machine for Rs. 10 lakh entitled to 15% rate of depreciation. She sold the machine, without putting it to use, for Rs. 8 lakh on 1.9.2022. There were no other transactions regarding fixed assets during the year. What will be the tax implication for AY 2023-24? Ignore additional depreciation.

- (a) Depreciation of 1.5 lakh (b) Depreciation of 30,000  
(c) Short term capital loss of 2 lakh (d) No tax implication

**M32.** Vandana purchased Machine C on 1.1.2023 for Rs. 10 lakh (15% rate of depreciation). She sold Machine B, acquired on 1.1.2022 for Rs. 8 lakh, for Rs. 6 lakh on 1.9.2022. Machines B and C are the only assets in the 15% machinery block and were put to use immediately upon acquisition. What will be the tax implication for AY 2023-24? Ignore additional depreciation.

- (a) Depreciation of 1,62,000 (b) Depreciation of 96,000  
(c) Short term capital loss of 2,00,000 (d) Short term capital loss of 1,40,000

**M33.** Opening WDV of the block of intangible assets, comprising know-how and patent, on 1.4.2022, is Rs. 20 lakh. During the PY 2022-23, an additional patent was acquired on 1.5.2022 for Rs. 5 lakh and the patent, acquired five years back for Rs. 40 lakh, was sold for Rs. 35 lakh on 1.2.2023. What will be the tax implication for AY 2023-24?

- (a) Long term capital loss of 5 lakh; depreciation of 1.25 lakh  
(b) No capital gain; depreciation of 1,25,000
- (c) Short term capital gain of 10 lakh; no depreciation  
(d) Neither depreciation nor capital gain

### SPECIAL PROVISIONS WHERE CAPITAL GAIN IS TAXABLE OTHER THAN IN THE YEAR OF TRANSFER

**M34.** Insurance compensation received for destruction of a capital asset in a road accident, is:

- (a) Taxable in the year in which accident takes place  
(b) Taxable in the year in which compensation is received
- (c) Taxable in the year determined by the AO  
(d) Not taxable

**M35.** Sony, a businessman, had two machines in the block of assets (15% depreciation rate) with WDV of Rs. 1 lakh on 1.4.2022. Machine A was purchased for Rs. 2 lakh on 1.4.2016 and Machine B for Rs. 1.5 lakh on 1.4.2017. On account of an earthquake on 15.4.2022, Machine A was damaged and Machine B was destroyed. Insurance company paid compensation of Rs. 45,000 for Machine A and replaced Machine B with a new machine on 1.7.2022 whose FMV on this date was Rs. 50,000. Tax implication for AY 2023-24 will be:

- (a) Long term capital loss of 43,950  
(b) Short term capital loss of 55,000
- (c) Short term capital loss of 5,000  
(d) No tax implication

**M36.** Johnny, engaged in manufacturing of goods, owned a residential house which was destroyed in a cyclone that occurred on 1.1.2022. He had purchased the house on 1.5.2018 for Rs. 10 lakh. The cyclone also destroyed his personal car which he had purchased for Rs. 5 lakh on 1.4.2020 and some stock-in-trade of his business worth Rs. 1 lakh which was kept in his house at that time. He had paid Rs. 10,000 as insurance premium for the house and car on 1.9.2021. On 17.5.2022, he received insurance compensation of Rs. 10 lakh for the house, Rs. 50,000 for the car and Rs. 65,000 for the stock-in-trade. Amount chargeable as capital gain for AY 2023-24 will be:

- (a) Long term capital loss of 1,32,143  
(b) Long term capital loss of 85,000
- (c) Long term capital loss of 75,000  
(d) Long term capital loss of 75,000; short term capital loss of 4,50,000

**M37.** Which of the following is correct if Rashmi converted a capital asset, acquired in PY 2014-15, into stock-in-trade of her business in PY 2019-20, and sold it in PY 2022-23?

- (a) Year of charge will be AY 2020-21 for LTCG and AY 2023-24 for PGBP  
(b) Year of charge will be AY 2023-24 for LTCG and AY 2023-24 for PGBP
- (c) Indexation will run from PY 2014-15 to PY 2022-23  
(d) Sale price will be the full value of consideration for computing capital gain

**M38.** Rashmi started a jewellery business on 1.2.2020 and brought her personal jewellery that she used to wear, into the business on 1.9.2020 as inventory (worth Rs. 5,00,000 on this date). She had purchased the jewellery on 15.6.2010 for Rs. 1,00,000. She sold 50% of this jewellery to various customers for Rs. 4,00,000 on 1.5.2022. Compute the capital gain and business income arising from these transactions.

- (a) PGBP of 1,50,000 for AY 2023-24; no capital gain  
(b) LTCG of 1,59,880 for AY 2021-22 and PGBP of 1,50,000 for AY 2023-24
- (c) PGBP of 3,50,000 for AY 2023-24; no capital gain  
(d) LTCG of 1,59,880 and PGBP of 1,50,000 for AY 2023-24

**M39.** If Rashmi treats the stock-in-trade of her jewellery business (acquired on 17.8.2016) as a capital asset on 17.8.2020 and later sells the capital asset on 10.8.2022, what will be the tax treatment?

- (a) PGBP will not arise; LTCG will arise for AY 2023-24 (cost to acquire stock-in-trade will be the cost of acquisition)  
(b) PGBP will arise for AY 2021-22; STCG will arise for AY 2023-24 (FMV on date of conversion will be taken as PGBP income and also the cost to compute STCG)
- (c) PGBP and STCG will arise for AY 2023-24 (FMV on date of conversion will be taken as PGBP and also the cost to compute STCG)  
(d) PGBP will arise for AY 2023-24 (FMV on date of conversion will be taken as PGBP); capital gain will not arise

**M40.** Government of Delhi acquired a plot of land owned by Gyan on 1.6.2021 for constructing Delhi Metro. It paid 70% compensation on 1.1.2022 and balance on 1.5.2022. On appeal by Gyan, the Delhi High Court passed an interim order on 1.11.2022 pursuant to which Gyan received interim compensation on 1.12.2022. The Court passed the final order on 14.4.2023 confirming the interim compensation and further enhancing the compensation, the pending amount of which was finally paid to Gyan on 15.6.2023. Which amounts will be taxable in the hands of Gyan for AY 2023-24?

- (a) 30% initial compensation; interim compensation  
(b) Entire compensation
- (c) No compensation  
(d) Interim compensation

**M41.** What is the tax treatment for AY 2023-24 of Rs. 30,000, being interest on compensation received on 30.9.2022 for the period 1.4.2021 to 30.9.2022?

- (a) Rs. 10,000 is taxable under the head IFOS (b) Rs. 5,000 is taxable under the head IFOS  
 (c) Rs. 15,000 is taxable under the head IFOS (d) Rs. 30,000 is taxable under the head IFOS

**M42.** Government of Maharashtra acquired a house owned by Yaman on 10.12.2021, which he had acquired as gift from his father on 10.12.2020 who, in turn, had purchased it on 10.12.2016 for Rs. 20 lakh. He received Rs. 30 lakh as compensation on 10.4.2022. On appeal, the Delhi Court awarded an interim additional compensation of Rs. 5 lakh, which he received on 10.7.2022. The Court passed the final order on 10.9.2022 confirming the enhancement. Yaman had to pay Rs. 50,000 to his lawyer for this purpose. Capital gain arising for AY 2023-24 will be:

- (a) LTCG of 10,48,485 (b) LTCG of 11,69,697  
 (c) STCG of 4,50,000 (d) Nil

**M43.** Pursuant to a registered agreement, JKL Pvt. Ltd. handed over possession of a plot of land to Super Builders on 15.1.2022 for developing a commercial complex, upon receipt of Rs. 20 lakh. In return, it obtained possession of 10 shops, the SDV of each of which was Rs. 8 lakh on 15.9.2022, being the date on which certificate of completion was issued. The company had purchased the land on 15.1.2021 for Rs. 40 lakh. Capital gain arising to JKL Pvt. Ltd. in respect of this transaction, for AY 2023-24 will be:

- (a) Nil (b) Short term capital loss of 20 lakh  
 (c) Short term capital gain of 40 lakh (d) Short term capital gain of 60 lakh

**M44.** Pursuant to a joint development agreement, entered by Chunky with Junky Builders on 10.1.2022 to construct a multi-storied building on his vacant plot of land which he acquired in March 2018 for Rs. 25 lakh, Chunky gave possession of land to the builder on 10.3.2022 and received Rs. 20 lakh. He also got possession of one floor of the building on 10.12.2022. The local authority issued certificate of completion for 50% of the project on 10.11.2022 and on 10.4.2023 for the remaining part. SDV of the floor obtained by him was Rs. 30 lakh on 10.11.2022 and Rs. 35 lakh on 10.12.2022. Capital gain arising to Chunky will be:

- (a) LTCG of 20,86,397 for AY 2023-24 (b) LTCG of 22,33,456 for AY 2022-23  
 (c) LTCG of 22,33,456 for AY 2023-24 (d) LTCG of 27,33,456 for AY 2022-23

**M45.** Which of the following is not a correct match?

- (a) Receipt of insurance compensation on damage/destruction of capital asset: Year of transfer is the year of damage/destruction; year of charge of capital gain is the year of receipt of claim (b) Conversion of capital asset to inventory: Year of transfer is the year of sale of inventory; year of charge of capital gain is the year of sale of inventory  
 (c) Compulsory acquisition of capital asset: Year of transfer is the year of compulsory acquisition; year of charge of capital gain is the year of receipt of compensation (d) Agreement for joint development of land or building with individual or HUF: Year of transfer is the year of hand over of possession; year of charge of capital gain is the year of issue of COC

#### SPECIAL PROVISIONS TO PREVENT TAX AVOIDANCE

**M48<sup>2</sup>.** In which of the following situations is actual consideration not taken for computing capital gain on transfer of land or building?

- (a) SDV is 110% of actual consideration (b) On reference, the valuation officer determines the value to be less than actual consideration  
 (c) SDV is 111% of actual consideration (d) SDV is 100% of actual consideration

**M49.** In which of the following situations is SDV taken as full value of consideration for computing capital gain on transfer of land or building?

- (a) SDV is 110% of actual consideration (b) DVO valuation is more than SDV  
 (c) DVO valuation is less than SDV (d) SDV is less than actual consideration

**M50.** Under section 50C, SDV on the date of agreement can be taken into account instead of SDV on the date of registration only if:

- (a) The entire consideration is received by any of the specified modes on the date of registration (b) The entire consideration is received by any of the specified modes on the date of agreement (not before)  
 (c) Full or part of the consideration is received by any of the specified modes on or before the date of agreement (d) Full or part consideration is received by any of the specified modes between the date of agreement and registration

**M51.** Mr. Z sold a plot of land to Mr. Y on 15.11.2022 for Rs. 30 lakh after incurring brokerage of 1% (SDV on this date: Rs. 34 lakh). Mr. Y paid 10% of consideration as down payment on the date of agreement entered into on 15.6.2022 (SDV on this date: Rs. 32 lakh). Actual consideration can be taken as the full value of consideration for computing capital gain in which of the following cases:

<sup>2</sup> M46, M47 has been intentionally omitted.

- (a) Down payment was made in cash (b) Down payment was made by RTGS  
 (c) Down payment was made by uncrossed cheque (d) Down payment is not relevant. SDV on date of registration to be taken as full value of consideration.

**M52.** Zulu sold his house to Zola on 15.12.2022 for Rs. 50 lakh. Zola paid Rs. 1 lakh by a bearer cheque as token amount on the date of agreement being 15.10.2022. SDV of the house was Rs. 56 lakh on 15.10.2022 and Rs. 55 lakh on 15.12.2022. The house was purchased by Zulu on 15.12.2021 for Rs. 30 lakh. Capital gain for AY 2023-24 will be:

- (a) STCG of 26 lakh (b) STCG of 25 lakh  
 (c) STCG of 20 lakh (d) STCG of 19 lakh

**M53.** Rolu sold his house to Golu for Rs. 20 lakh. He received 10% of consideration on date of agreement of 1.5.2022 by account payee demand draft and the transfer was registered in the name of Golu on 1.7.2022. SDV on both dates was Rs. 23 lakh and Rs. 25 lakh, respectively. On reference to the valuation officer, value of house was determined as Rs. 21 lakh. Determine the capital gain arising to Rolu for AY 2023-24 if he purchased the house on 1.12.2021 for Rs. 15 lakh.

- (a) STCG of 5 lakh (b) STCG of 10 lakh  
 (c) STCG of 8 lakh (d) STCG of 6 lakh

**M54.** If assessee has disputed the SDV in a Court, he cannot ask for DVO valuation under section 50C. In such case, the AO will recompute the capital gain once SDV is revised by the Court.

- (a) True (b) False

**M55.** Zubin sold a vacant plot of land to Rubin for Rs. 30 lakh on 14.8.2022 on which date its SDV was Rs. 50 lakh and FMV was Rs. 35 lakh. He had received 5% down payment by account payee cheque on 14.6.2022, being the date of agreement, when the SDV was Rs. 45 lakh. Zubin contested the SDV in the Court which finalized the value of land at Rs. 32 lakh. What value of consideration will be considered in computing capital gain?

- (a) 30 lakh (b) 45 lakh  
 (c) 35 lakh (d) 32 lakh

**M56.** Section 50CA applies to transfer of which of the following capital assets?

- (a) Quoted shares (b) Unquoted shares  
 (c) Unquoted debentures (d) Quoted bonds

**M57.** Shekhar, a shareholder of 100 unlisted equity shares in Shikhar Pvt. Ltd., sold his entire shareholding on 15.2.2023 at Rs. 5,000 per share, whereas the fair market value of a share, determined as per Rule 11UAA, was Rs. 6,000 on 1.4.2022, 5,500 on 15.2.2023 and Rs. 5,000 on 31.3.2023. The shares were acquired by Shekhar on 15.3.2021 at Rs. 3,000 per share. Capital gain in respect of this transaction for AY 2023-24 will be:

- (a) LTCG of 2,20,935 (b) LTCG of 1,70,935  
 (c) STCG of 2,50,000 (d) STCG of 2,00,000

**M58.** Jagan sold gold jewellery during the PY 2022-23, which he acquired for Rs. 1 lakh in June 1997. For computing capital gain, he estimated the FMV of jewellery on 1.4.2001 as Rs. 1.75 lakh, based on report of a registered valuer, and took this figure as the cost of acquisition. Can the AO still refer the valuation to a valuation officer?

- (a) No (b) Yes, if he opines that the FMV is at variance with what has been claimed  
 (c) Depends on his discretion (d) Yes, in all cases where assessee substitutes FMV as the cost of acquisition

**M59.** Saurabh exchanged his gold jewellery of value Rs. 10 lakh for a precious work of art of fair market value Rs. 15 lakh and determined short term capital gain arising from this transaction at Rs. 5 lakh. As per the AO, the FMV of the work of art should have been Rs. 16 lakh. He accordingly referred the valuation to the valuation officer who determined the FMV to be Rs. 17 lakh. AO recomputed the amount of capital gain based on this figure. Was the AO justified in doing so?

- (a) Yes (b) No  
 (c) May be (d) Don't know

#### FINANCIAL ASSETS

**M60.** In which of the following cases is cost of acquisition taken to be nil?

- (a) Bonus shares (b) Right shares subscribed  
 (c) Shares subscribed by purchasing rights entitlement from the shareholder (d) Shares subscribed in the IPO of the company

**M61.** In which of the following cases can the assessee substitute FMV on 1.4.2001 as the cost of acquisition?

- (a) Bonus shares (b) Right shares subscribed  
(c) Shares subscribed by purchasing rights entitlement from the shareholder (d) All the above

**M62.** The period of holding does not run from the date of allotment of shares in which of the following cases?

- (a) Bonus shares (b) Right shares subscribed  
(c) Shares subscribed by purchasing rights entitlement from the shareholder (d) Rights entitlement renounced by the shareholder

**M63.** Capital gain on renouncement of rights entitlement is always long-term capital gain.

- (a) True (b) False

**M64.** Rana was offered 100 right shares of PQR Ltd. @ Rs. 400 per share on 20.5.2021 which he renounced in favor of Sana @ Rs. 200 per share on 25.5.2021, who subsequently subscribed to the shares and was allotted the shares on 10.6.2021. Sana sold all the shares @ Rs. 1,000 per share on 30.5.2022. Shares are not listed and STT is not applicable. Capital gain arising to Rana for AY 2022-23 and Sana for AY 2023-24 will be:

- (a) STCG of 20,000; LTCG of 36,811 (b) Nil; STCG of 60,000  
(c) STCG of 20,000; STCG of 40,000 (d) STCG of 40,000; LTCG of 78,937

**M65.** Maya had bought 3,000 listed shares of a company on 25.2.2022 at Rs. 300 per share. The company announced and allotted bonus shares in the ratio of 1:3 on 1.7.2022. After the allotment of bonus shares, the shares were sold by Maya on 10.3.2023 at Rs. 400 per share. Compute capital gain for AY 2023-24. Ignore the provisions of section 112A.

- (a) STCG 7,00,000 (b) LTCG 2,60,252; STCG 4,00,000  
(c) LTCG 2,60,252; STCG 1,00,000 (d) LTCG 3,00,000; STCG 4,00,000

**M66.** Cee purchased 100 shares of Gems Ltd. @ Rs. 50 per share on 20.2.1998. FMV on 1.4.2001 was Rs. 100 per share. Upon the death of Cee, Dee obtained these shares under his will on 20.2.2005. Gems Ltd. offered rights shares in the ratio of 1:2 @ Rs. 200 per share to which Dee subscribed and was allotted shares on 20.2.2017. The company allotted bonus shares on 20.3.2022 in the ratio of 1:3. Dee sold all the shares on 20.1.2023 @ Rs. 1,000 per share. STT was not paid on these transactions. Compute the capital gain for AY 2023-24.

- (a) LTCG 1,40,442; STCG 50,000 (b) LTCG 1,04,362; STCG Nil  
(c) LTCG 38,598; STCG 50,000 (d) LTCG 1,04,362; STCG 50,000

**M68<sup>3</sup>.** Ruma purchased 1,000 shares of D Ltd. on 1.7.2021 @ 200 per share, 2,000 shares of C Ltd. on 1.12.2021 @ 400 per share and 500 shares of D Ltd. on 12.12.2021 @ 300 per share. Ruma sold 1,200 shares of D Ltd. on 1.5.2022 @ Rs. 500 per share. Shares were sold in the order they were first acquired. Capital gain for AY 2023-24 will be:

- (a) STCG of 3,20,000 (b) STCG of 3,40,000  
(c) STCG of 3,10,000 (d) STCG of 3,00,000

**M69.** Zen subscribed to 1,000 convertible preference shares of MR Ltd. on 1.11.2008 @ Rs. 500 per share. These shares were converted on 1.4.2018 into equity shares of MR Ltd. in the ratio of 2:1 (FMV of equity shares on this date: Rs. 400 per share). Zen sold his entire holding in MR Ltd. on 1.1.2023 @ Rs. 600 per share. STT was not paid. Capital gain for AY 2023-24 will be:

- (a) Nil (b) STCG of 4,00,000  
(c) LTCG of 8,029 (loss) (d) STCG of 7,00,000

**M70.** Zen Ltd. bought back 5 lakh securities @ Rs. 100 per security from its shareholders on 14.6.2022. Shareholders will be exempt from capital gain arising from the buy-back if:

- (a) Zen Ltd. is a domestic company and the security is other than shares (b) Zen Ltd. is a domestic company and the security is shares  
(c) Zen Ltd. is a foreign company and the security is other than shares (d) Zen Ltd. is a foreign company and the security is shares

**M71.** Shine Ltd., an Indian company, purchased 10,000 of its equity shares of face value of Rs. 10 for Rs. 50 from its shareholders on 15.6.2022. These shares were issued during June 2017 at a premium of Rs. 5. Out of these shares, Sheryl owned 200 shares which she had purchased on 15.11.2021 @ Rs. 40 per share. Tax implications for AY 2023-24 will be:

- (a) STCG of 2,000 for Sheryl; no implication for Shine Ltd. (b) No implication for Sheryl and Shine Ltd.  
(c) No implication for Sheryl; Buyback tax payable by Shine Ltd @ 20% (+ SC & HEC) on Rs. 3.5 lakh (d) No implication for Sheryl; Buyback tax payable by Shine Ltd @ 20% (+ SC & HEC) on Rs. 5 lakh

**M72.** Cost of acquisition in case of transfer of shares (converted from the original capital asset) is taken to be the cost of original capital asset in the case of:

<sup>3</sup> M67 has been intentionally omitted.



- (a) Sub division of shares into shares of smaller amount (b) Consolidation of shares into shares of larger amount  
(c) Conversion of preference shares into equity shares (d) All the above

**M73.** Roland Ltd. split its equity shares of face value of Rs. 10 each into five equity shares of Rs. 2 each, on 1.1.2022. Roli held 1,000 shares in the company on 1.3.2023. She had purchased shares in Roland Ltd. on 1.9.2019 @ Rs. 100 each. She sold all these shares on 1.3.2023 @ Rs. 50 per share. FMV of shares on 1.1.2022 is Rs. 40 per share. Shares are not covered u/s 112A. Capital gain for AY 2023-24 will be:

- (a) LTCG of (-) 59,688 (b) STCG of (-) 50,000  
(c) STCG of 10,000 (d) LTCG of 27,093

**M74.** Which of the following statements is correct in respect of sale of shares obtained under an ESOP?

- (a) Cost of acquisition is the amount actually paid to acquire the shares (b) Cost of acquisition is the fair market value of shares on date of allotment  
(c) Cost of acquisition is the fair market value of shares on the date of exercise of option (d) Period of holding is counted from the date of exercise of option

**M75.** Quant Ltd. allotted 1,000 equity shares to Rashid on 1.3.2022 on payment of Rs. 200 per share under its employee stock option plan. Rashid had exercised the option to purchase shares on 15.2.2022. FMV of shares on 15.2.2022 and 1.3.2022 was Rs. 1,000 and Rs. 1,200, respectively. Rashid sold all the shares on 20.2.2023 @ Rs. 1,500 per share. Capital gain for AY 2023-24 will be:

- (a) STCG of 3,00,000 (b) LTCG of 4,46,844  
(c) STCG of 5,00,000 (d) LTCG of 12,89,369

**M76.** Zara acquired 100 debentures in Z Ltd. on 1.7.2016 for Rs. 500 each. 50% of the debentures were converted into 50 equity shares on 1.1.2021 on which date the FMV of shares was Rs. 1,000 per share. Zara sold all the debentures @ Rs. 600 each and all the shares @ Rs. 1,200 each on 15.3.2023. STT is not applicable. Capital gain for AY 2023-24 will be:

- (a) LTCG 33,655 (b) LTCG 32,598  
(c) STCG 10,000; LTCG 5,000 (d) LTCG 10,156

**M77.** Transfer of which of these is not eligible for benefit of indexation?

- (a) Zero Coupon Bonds (b) Sovereign Gold Bonds  
(c) Capital Indexed Bonds (d) All the above

**M78.** Which of these transfers is not chargeable to capital gain?

- (a) Conversion of bonds into equity shares (b) Redemption of Zero Coupon Bonds  
(c) Transfer of Sovereign Gold Bond by an individual (d) Transfer by a non-resident to a resident, of rupee denominated bond of an Indian company, issued in Germany

#### INTANGIBLE ASSETS

**M79.** Which of these is not correct in respect of transfer of goodwill of a business or profession?

- (a) COA is nil, if goodwill is self-generated (b) Expenditure on transfer cannot be deducted  
(c) COA is purchase price, if goodwill is purchased (d) FMV as on 1.4.2001 cannot be substituted for COA

**M80.** Transfer of which of these assets is not chargeable to capital gain?

- (a) Self-generated goodwill of business (b) Trade mark of a profession purchased from the person who generated it  
(c) Stage carriage permit obtained from the transport authority (d) None of the above

**M81.** Rishabh, selling products under the brand name 'Super Duper Foods' since 1.5.2000, transferred the brand name to Zed Pvt. Ltd. for Rs. 50 lakh on 1.5.2022. He estimated the FMV of the brand name on 1.4.2002 to be Rs. 5 lakh. Expenses in preparing legal documentation for transfer amounted to Rs. 10,000. Capital gain for AY 2023-24 will be:

- (a) LTCG of 44,90,000 (b) LTCG of 50,00,000  
(c) LTCG of 34,05,000 (d) LTCG of 49,90,000

**M82.** Mr. Bee purchased the license to run his profession from Mr. Cee on 15.2.2020 for Rs. 10 lakh. He also created and used a trademark for his profession which he got registered on 15.8.2020. He sold both these capital assets to Mr. Dee on 15.1.2023 for Rs. 20 lakh and Rs. 10 lakh, respectively. Capital gain for AY 2023-24 will be:

- (a) STCG of 30,00,000 (b) LTCG of 18,67,858  
(c) STCG of 20,00,000 (d) LTCG of 8,67,858

**M83.** Gopal, a transporter, acquired stage carriage permit on 12.12.2017 for Rs. 1,00,000 from another transporter. He gifted the permit to Govind on 12.12.2019. Govind sold the permit to Mohan on 12.11.2022 for Rs. 2,00,000. Calculate the capital gain in the hands of Govind for AY 2023-24.

- (a) Nil (b) STCG of 1,00,000  
(c) LTCG of 2,00,000 (d) LTCG of 78,309

#### BUSINESS REORGANIZATION

**M84.** B Ltd. amalgamated with C Ltd on 1.4.2022, both companies being Indian companies, under which all assets of B Ltd. became the assets of C Ltd. (Event 1). Pursuant to the amalgamation, Roman, a shareholder of B Ltd., received 1,000 shares in C Ltd. as a result of transfer of shares held in B Ltd (Event 2). On 1.2.2023, C Ltd. sold some of the assets received on amalgamation (Event 3). On 1.3.2023, Roman sold his shareholding in C Ltd (Event 4). Which of these events is liable to capital gain?

- (a) Events 3 and 4 (b) Events 1 and 2  
(c) Event 1 and 4 (d) All events

**M85.** Shaunak, a shareholder in Mart Ltd., received 5,000 shares in D-Mart Ltd. on 1.6.2022 pursuant to amalgamation of Mart Ltd. with D-Mart Ltd., an Indian company. FMV of share on 1.6.2022 was Rs.300. Shaunak sold all these shares on 1.12.2022 @ Rs. 400. Shares in D-Mart Ltd. were allotted to Shaunak based on 1,000 shares that he held in Mart Ltd. which he had acquired on 12.4.2019 @ Rs. 1,000 per share. Shares are not covered u/s 112A. Capital gain in the hands of Shaunak for AY 2023-24 will be:

- (a) LTCG 4,03,114; STCG 5,00,000 (b) STCG 5,00,000  
(c) LTCG 5,00,000 (d) LTCG 8,54,671

**M86.** Which of the following transfers is not chargeable to capital gain in case of a demerger?

- (a) Transfer of capital assets by resulting company acquired in demerger (b) Transfer of shares in resulting company acquired by shareholder in demerger  
(c) Issue or transfer of shares by resulting company to the shareholder in consideration of demerger (d) None of the above

**M87.** KLM Ltd. transferred its manufacturing unit to BCD Ltd. for a lump sum consideration of Rs. 50 crore on 15.6.2022. The undertaking was set up on 15.1.2020. Which of the following statements is correct in relation to computation of capital gain arising from this transfer?

- (a) Long term capital gain will arise (b) To determine the cost of acquisition, cost of all assets will be aggregated and benefit of indexation will be provided  
(c) Transfer of inventory will be taxable as PGBP and transfer of capital assets will be taxable as capital gain (d) Cost of acquisition and improvement will be the net worth of the undertaking

**M88.** KLM Ltd. transferred its manufacturing unit to BCD Ltd. for a lump sum consideration of Rs. 27 crore on 15.6.2022 (FMV of unit on this date was determined in the prescribed manner at Rs. 30 crore). The undertaking was set up on 15.1.2017. Tax WDV of depreciable assets is Rs. 10 crore (Rs. 15 crore as per books). Land, purchased for Rs. 5 crore, is stated at a revalued figure of Rs. 15 crore. Book value of all other assets is Rs. 10 crore. Value of liabilities as per books stands at Rs. 5 crore. Capital gain on slump sale will be:

- (a) LTCG of 5.04 crore (b) Nil  
(c) LTCG of 10 crore (d) LTCG of 7 crore

#### CERTAIN OTHER TRANSFERS NOT LIABLE TO CAPITAL GAIN

**M89.** JJ Hussain, a renowned painter, donated his famous paintings to the National Art Gallery on 20.2.2023. He estimated Rs. 1 lakh as cost of creating those paintings and Rs. 30 lakh as the market value on 20.2.2023. All the paintings were created during the PY 2020-21. Capital gain in his hands for AY 2023-24 will be:

- (a) Nil (b) STCG of 29,00,000  
(c) LTCG of 28,90,311 (d) STCG of (-) 1,00,000

**M90.** Which of the following events are chargeable to capital gain in a reverse mortgage?

- (a) Mortgage of residential house property (b) Receipt of loan amount (in lump sum or in instalments)  
(c) Release of mortgage on repayment of loan on maturity (d) Sale of property by bank to recover the loan

**M91.** Mr. Shankar, aged 70 years, purchased a residential house on 1.4.2021 for Rs. 50 lakh and mortgaged it to SBI on 1.4.2022 under the reverse mortgage scheme of the bank. He started receiving the loan sanctioned of Rs. 30 lakh in instalments of Rs. 10,000 per month. He had no other income or investments during the PY 2022-23. His total income for AY 2023-24 will be:

- (a) 1,20,000 (b) Loss of 20,00,000  
(c) Nil (d) Loss of 18,80,000

## EXEMPTIONS

**M92.** For claiming exemptions u/s 54 to 54F, lock-in period for the new asset is reckoned from date of transfer of original asset and not from the date of acquisition of new asset.

- (a) True (b) False

**M93.** Exemption claimed u/s 54 to 54F is not forfeited if the new asset is transferred after lock in period.

- (a) True (b) False

**M94.** After claiming exemption under any of the sections 54 to 54F in respect of investment in the new asset, on subsequent transfer of the new asset, exemption cannot be claimed again under any of these sections.

- (a) True (b) False

**M95.** Time limit to utilize the amount in the CGAS account runs from the date of deposit in the CGAS account.

- (a) True (b) False

**M96.** On compulsory acquisition of the original asset, time limit to acquire the new asset or invest/utilize the CGAS deposit, in relation to such compensation as is not received on the date of compulsory acquisition, is reckoned from the date of receipt of compensation and not the date of compulsory acquisition.

- (a) True (b) False

**M97.** The outer time limit to utilize CGAS deposit to acquire the new asset is the following period from the date of transfer of the original asset:

- (a) 3 years u/s 54, 54D, 54F; 2 years u/s 54B; 6 months u/s 54EC (b) 3 years u/s 54, 54D, 54F; 2 years u/s 54B  
(c) 3 years u/s 54, 54D; 2 years u/s 54B, 54F (d) 2 years u/s 54, 54D, 54F; 3 years u/s 54B

**M98.** Exemption in respect of capital gain under these sections is available only to an individual or HUF:

- (a) 54, 54B, 54EC (b) 54, 54B, 54EC, 54F  
(c) 54, 54B, 54F (d) 54, 54EC

**M99.** Exemption is not available under these sections in respect of short-term capital gain:

- (a) 54D, 54EC, 54F (b) 54, 54F, 54B  
(c) 54, 54B, 54EC (d) 54, 54F, 54EC

**M100.** Exemption under which of the following provisions is not available in case of transfer of a building?

- (a) 54 (b) 54D  
(c) 54B (d) 54F

**M101.** Exemption under which provision cannot be availed in respect of acquisition of a new asset, being two residential houses?

- (a) 54 (b) 54F  
(c) Both 54 and 54F (d) Neither 54 nor 54F

**M102.** In which of the following situations can exemption be claimed u/s 54 by Rohit?

- (a) Sale of retail shop in Delhi on 1.4.2022 (acquired on 1.4.2017) and purchase of residential house in Mumbai on 1.4.2023 (b) Sale of self occupied house in Varanasi on 1.4.2022 (acquired on 1.4.2018), whose income under the head IHP is a loss of 1 lakh, and purchase of a residential flat in a group housing society in Faridabad on 1.5.2021  
(c) Sale of residential house in Ghaziabad on 1.4.2022 (acquired on 1.4.2018) and construction of residential house in Noida (started on 1.5.2024 and completed on 1.5.2025) (d) Sale of residential house in Gurgaon on 1.4.2022 (acquired in 2021) and purchase of residential house in Chennai on 1.5.2023

**M103.** In which of the following situations, is exemption not available u/s 54, in the hands of Rashmi?

- (a) Sale of two residential houses in Kanpur on 1.4.2022 (acquired on 1.4.2016) and purchase of a second-hand residential house in Jaipur on 1.1.2023 (b) Sale of residential house in Hong Kong on 1.4.2022 (acquired on 1.4.2016; income taxable in India) and construction of residential house in Jodhpur (completed on 1.3.2025)  
(c) Sale of residential house in Shimla on 1.4.2022 (acquired on 1.4.2016) and purchase of residential house in Sweden on 1.8.2022 (d) Compulsory acquisition of residential house in Bangalore on 1.4.2022 (purchased on 1.4.2016), receipt of compensation on 1.9.2022 and purchase of second floor of a multi-story residential house in Mumbai on 1.7.2024

**M104.** PQR Ltd. owns a house property which is utilized by its directors for their residence. On 31.10.2022, the company sells the property earning long-term capital gain of Rs. 3.5 lakh. Can the company or directors claim exemption u/s 54?

- (a) Company can claim exemption u/s 54 as it has earned LTCG from transfer of residential house
- (b) Directors can claim exemption u/s 54 as property was used by them for residential purpose and it was indirectly transferred by directors through the company
- (c) Neither the company nor directors can claim exemption u/s 54 as it is allowed only in case of a commercial property
- (d) Company cannot claim exemption u/s 54 as it is allowed only to an individual or HUF. Directors cannot claim exemption u/s 54 as transferor is the company

**M105.** Shubham sold a residential house on 1.12.2022, for the first time in his life, resulting in a long term capital gain of Rs. 50 lakh. He purchased a residential house in Gorakhpur on 1.1.2022 for Rs. 25 lakh and deposited Rs. 25 lakh in the CGAS account on 15.6.2023, before the due date to file return u/s 139(1). He utilized the deposit to purchase a residential house in Jaipur on 1.11.2024 for Rs. 20 lakh. Determine the capital gain arising from these transactions.

- (a) LTCG of 25 lakh for AY 2023-24; STCG of 5 lakh for AY 2026-27
- (b) Nil for AY 2023-24; LTCG of 5 lakh for AY 2025-26
- (c) Nil for AY 2023-24; LTCG of 5 lakh for AY 2026-27
- (d) Nil

**M106.** Vaibhav sold his old residential house in April 2021 for Rs. 28,00,000. LTCG arising on transfer of old house amounted to Rs. 8,40,000. In December 2021, he purchased another residential house for Rs. 5,00,000. The new house was, however, sold in April 2022 for Rs. 14,00,000 (SDV of new house was Rs. 12,00,000). What is the amount of capital gain for AY 2022-23 and 2023-24?

- (a) LTCG of 3,40,000 for AY 2022-23 and STCG of 14,00,000 for AY 2023-24
- (b) LTCG of 3,40,000 for AY 2022-23 and LTCG of 5,00,000 for AY 2023-24
- (c) LTCG of 3,40,000 for AY 2022-23 and LTCG of 5,00,000 and STCG of 9,00,000 for AY 2023-24
- (d) LTCG of 3,40,000 for AY 2022-23 and LTCG of 5,00,000 and STCG of 7,00,000 for AY 2023-24

**M107.** Dhoni sold a residential house on 1.5.2022 on which long term capital gain was computed at Rs. 25 lakh. He purchased two houses of Rs. 10 lakh each on 1.5.2023. He sold one of these houses on 1.8.2024 for Rs. 12 lakh (SDV on this date was Rs. 15 lakh). Dhoni had not claimed any capital gain exemption before. Compute the capital gain chargeable to tax on these transactions.

- (a) LTCG of 15 lakh for AY 2023-24; STCG of 15 lakh for AY 2025-26
- (b) LTCG of 5 lakh for AY 2023-24; STCG of 15 lakh for AY 2026-27
- (c) LTCG of 5 lakh for AY 2023-24; STCG of 15 lakh for AY 2025-26
- (d) LTCG of 15 lakh for AY 2023-24; STCG of 5 lakh for AY 2025-26

**M108.** In which of the following situations, can Yash reduce capital gain by claiming exemption u/s 54B?

- (a) Sale of rural agricultural land on 1.4.2022 (purchased on 1.4.2017) and purchase of barren land for constructing a housing complex
- (b) Sale of land in Gandhinagar on 1.4.2022, used for dairy business till 1.6.2021 and thereafter for agriculture, and purchase of land in Jamnagar on 1.3.2024 for use in agriculture
- (c) Compulsory acquisition of agricultural land in Delhi on 1.4.2022, used for dairy business till 1.1.2020 and thereafter for agriculture, receipt of compensation on 1.6.2022 and purchase of land in Jamnagar on 1.5.2024 for use in agriculture
- (d) Sale of land in Gandhinagar on 1.4.2022, used for dairy business till 1.6.2019 and thereafter for agriculture, and purchase of land in rural area outside Jamnagar on 1.3.2024 for use in agriculture

**M109.** Harini is a resident of India staying in Jaipur. During FY 2012-13, she purchased an agricultural land for Rs. 15 lakh. This land was situated in an area having aerial distance of 6.5 km from local limits of municipality of Modinagar. Total population of this area was 1,30,000 as per the last preceding census. During FY 2022-23, she sold this land to Heera for Rs. 35 lakh on 29.1.2023. Harini invested Rs. 4 lakh in bonds of NHA1 on 31.7.2023. What is the amount of capital gain taxable in her hands for AY 2023-24?

- (a) 5,15,761
- (b) 9,15,761
- (c) 16,00,000
- (d) None of the above

**M110.** Yash, sold agricultural land, situated 2 kms from the municipal limits of Pune (population 30 lakh), on 1.4.2022 for Rs. 30 lakh. He had inherited this land from his father, who had purchased it on 1.4.2016 for Rs. 10 lakh and used it for agriculture till his death on 1.4.2021. Yash continued agricultural operations on the land thereafter. Yash purchased a tract of agricultural land in a village situated 15 kms from local limits of Pune on 15.6.2023 for Rs. 15 lakh and sold it on 15.5.2025 for Rs. 25 lakh. Compute the capital gain arising from these transactions.

- (a) LTCG 2,46,212 for AY 2023-24; STCG Nil for AY 2026-27
- (b) LTCG 2,46,212 for AY 2023-24; STCG 10,00,000 for AY 2026-27
- (c) LTCG 2,46,212 for AY 2023-24; STCG 25,00,000 for AY 2026-27
- (d) STCG 5,00,000 for AY 2023-24; STCG Nil for AY 2026-27

**M111.** In which of the following cases can exemption from capital gain be claimed u/s 54D?

- |   |   |
|---|---|
| (a) Compulsory acquisition on 1.4.2022 of land in Greater Noida used in manufacturing unit since 1.4.2021 and purchase of land in Faridabad on 1.10.2022 for setting up a new unit.                                 | (b) Compulsory acquisition on 1.4.2022 of building used in industrial unit in Ramnagar since 1.1.2020, receipt of compensation on 1.7.2022 and construction of new building for reestablishing the unit in Ramnagar (completed on 1.6.2025) |
| (c) Compulsory acquisition on 1.4.2022 of land and building used in industrial unit since 1.1.2020, receipt of compensation on 1.7.2022 and purchase of plant and machinery on 1.7.2023 for setting up another unit | (d) Sale of land and building forming part of slump sale of industrial unit on 1.4.2022 and purchase of land and building on 1.4.2024 for reestablishing another unit   |

**M112.** In which of the following cases can the assessee claim exemption u/s 54EC?

- |  |  |
|--|--|
| (a) Sale of urban agricultural land (acquired on 1.4.2017) on 1.4.2022 and purchase of corporate bonds from the stock exchange on 1.9.2022 | (b) Sale of commercial building in Delhi (acquired on 1.7.2020) on 1.4.2022 and purchase of NHAI bonds on 1.9.2022 |
| (c) Sale of residential house in Delhi (acquired on 1.7.2018) on 1.4.2022 and purchase of RECL bonds on 1.11.2022                          | (d) Sale of vacant plot of land in Delhi (acquired on 1.7.2018) on 1.4.2022 and purchase of RECL bonds on 1.9.2022 |

**M113.** Raj sold his shop on 1.3.2023 resulting in long term capital gain of Rs. 65 lakh. From out of the capital gain, he invested Rs. 30 lakh in bonds of NHAI on 31.3.2023 and Rs. 15 lakh in bonds of RECL on 1.8.2023. He sold the bonds of RECL on 1.5.2024 for Rs. 20 lakh. Determine the capital gain arising from these transactions.

- |  |  |
|--|--|
| (a) LTCG of 35 lakh for AY 2023-24; LTCG of 5 lakh for AY 2024-25  | (b) LTCG of 20 lakh for AY 2023-24; LTCG of 5 lakh for AY 2025-26  |
| (c) LTCG of 20 lakh for AY 2023-24; LTCG of 15 lakh for AY 2025-26 | (d) LTCG of 20 lakh for AY 2023-24; STCG of 15 lakh for AY 2024-25 |

**M114.** Raja sold his house on 15.3.2023 resulting in long term capital gain of Rs. 60 lakh. He invested Rs. 30 lakh in bonds of NHAI on 20.3.2023 and another Rs. 20 lakh on 15.8.2023. He took a loan of Rs. 20 lakh from a bank on 15.8.2025 against security of these bonds of the same value. Determine the capital gain arising from these transactions.

- |  |   |
|--|---|
| (a) LTCG of 10 lakh for AY 2023-24; LTCG of 20 lakh for AY 2026-27 | (b) LTCG Nil for AY 2023-24; LTCG of 20 lakh for AY 2026-27 |
| (c) LTCG of 10 lakh for AY 2023-24; LTCG of 50 lakh for AY 2026-27 | (d) LTCG Nil for AY 2023-24; LTCG of 50 lakh for AY 2026-27 |

**M115.** Rosy sold a plot of land on 1.3.2023 attracting LTCG of Rs. 50 lakh. It was acquired four years back. She used the sale proceeds to invest Rs. 30 lakh in bonds of RECL on 15.5.2023 and additional amount of Rs. 10 lakh on 15.10.2023. She used the balance to purchase diamond jewellery for Rs. 10 lakh on 1.9.2023 which was sold for Rs. 12 lakh on 1.3.2024. The bonds purchased on 15.10.2023 were sold on 15.3.2024 for Rs. 15 lakh. Determine the capital gain arising from these transactions.

- |  |  |
|--|--|
| (a) LTCG 10 lakh for AY 2023-24; STCG 7 lakh for AY 2024-25  | (b) LTCG 10 lakh for AY 2023-24; LTCG 10 lakh for AY 2024-25 |
| (c) LTCG 20 lakh for AY 2023-24; STCG 10 lakh for AY 2024-25 | (d) LTCG 20 lakh for AY 2023-24; STCG 7 lakh for AY 2024-25  |

**M116.** DLF builders converted a commercial building, held as capital asset, into stock-in-trade on 1.1.2021 (FMV on this date Rs. 40 lakh). The building was acquired for Rs. 20 lakh on 1.4.2017. It was sold on 1.4.2022 for Rs. 45 lakh (SDV on this date Rs. 50 lakh). It invested Rs. 10 lakh in RECL bonds on 1.9.2022. Determine the tax implications arising from these transactions.

- |   |  |
|---|--|
| (a) LTCG of 17,86,765 & PGBP of 5,00,000 for AY 2023-24 | (b) LTCG of 17,86,765 & PGBP of 10,00,000 for AY 2023-24 |
| (c) LTCG of 7,86,765 & PGBP of 10,00,000 for AY 2023-24 | (d) LTCG of 7,86,765 and PGBP of 5,00,000 for AY 2023-24 |

**M117.** Swara sold a residential house acquired three years before, on 1.2.2023 resulting in long term capital gain of Rs. 75 lakh. She utilized the entire sale consideration to invest equally in NHAI bonds on 1.7.2023, RECL bonds on 1.9.2023 and deposit in CGAS account on 1.10.2023. She filed her return of income on 31.10.2023, being the due date u/s 139(1). She utilized the deposit to purchase a residential house in Kathmandu on 1.10.2024 for Rs. 10 lakh and a residential house in Patna on 1.10.2025 for Rs. 15 lakh. Determine the tax implications arising out of these transactions.

- |  |  |
|--|--|
| (a) LTCG 25 lakh for AY 2023-24; LTCG 25 lakh for AY 2026-27 | (b) LTCG Nil for AY 2023-24; LTCG 25 lakh for AY 2026-27 |
| (c) LTCG 25 lakh for AY 2023-24; LTCG 10 lakh for AY 2026-27 | (d) LTCG Nil for AY 2023-24; LTCG 10 lakh for AY 2026-27 |

**M118.** In which of the following situations, can Raje claim exemption u/s 54F?

- |   |   |
|---|---|
| (a) Raje, staying in her only self-owned house in Raj Nagar and running a business from a self-owned shop, sold gold jewellery (acquired in 2017) on 1.4.2022 and purchased a residential house in Jhansi on 1.6.2021 | (b) Raje, staying in her self-owned house in Rajnagar and owning another residential house in the same city, sold gold jewellery (acquired in 2017) on 1.4.2022 and purchased a residential house in Jhansi on 1.3.2024 |
| (c) Raje, staying in a rented house, sold a plot of land (acquired in 2021) on 1.4.2022 and constructed a   | (d) Raje, staying in her only self-owned flat in Raj Nagar and running a business from a self-owned office building, sold   |

residential house in Jhansi (construction completed on 1.6.2024)

the office building (acquired in 2017) on 1.4.2022 and purchased a residential house in Lahore on 1.6.2023

**M119.** In which of the following situations, can exemption granted u/s 54F to Raman on sale of diamond jewellery on 1.4.2022, be forfeited?

- |   |   |
|---|---|
| (a) Already owning a house on 1.4.2022, he purchased a house in Surat on 1.12.2022 (for which he claimed exemption u/s 54F) and a house in Chandigarh on 1.5.2024 | (b) Staying in a rented house on 1.4.2022, he purchased a house in Surat on 1.12.2022 (for which he claimed exemption u/s 54F) and a house in Chandigarh on 1.5.2024                            |
| (c) Already owning a house on 1.4.2022, he purchased a house in Surat on 1.12.2022 (for which he claimed exemption u/s 54F) and a house in Chandigarh on 1.3.2024 | (d) Already owning a house on 1.4.2022 and having purchased a house in Surat on 1.1.2022 (for which he claimed exemption u/s 54F), he constructed a house in Chandigarh (completed on 1.6.2025) |

**M120.** Jaya sold a commercial building, acquired in 2012, on 1.9.2022 for Rs. 50 lakh (SDV on this date: Rs. 54 lakh). This resulted in long term capital gain of Rs. 35 lakh. She deposited Rs. 30 lakh in the CGAS account on 1.12.2022 and used the remaining amount to renovate her house. She withdrew Rs. 30 lakh from the CGAS account to purchase a residential house in Jodhpur on 1.1.2024. She took a loan from bank and purchased another residential house at Ranchi for Rs. 30 lakh on 1.7.2024. All throughout, she stayed in her self-owned house which was the only house she owned on 1.9.2022. Determine the capital gain arising from these transactions.

- |  |  |
|--|--|
| (a) LTCG 5 lakh for AY 2023-24; LTCG 21 lakh for AY 2025-26  | (b) LTCG 14 lakh for AY 2023-24; LTCG 30 lakh for AY 2025-26 |
| (c) LTCG 14 lakh for AY 2023-24; LTCG 21 lakh for AY 2025-26 | (d) LTCG 5 lakh for AY 2023-24; LTCG 30 lakh for AY 2025-26  |

### TAX ON CAPITAL GAIN

**M121.** Capital gain on transfer of which of the following capital assets during PY 2022-23 is taxable at the highest rate for AY 2023-24 in the hands of Mr. Champion, having a total income of Rs. 20 lakh?

- |   |   |
|---|---|
| (a) Gold acquired on 1.4.2012   | (b) Capital gain on sale of all depreciable assets in a block of assets acquired on 1.4.2017    |
| (c) Listed equity shares acquired on 1.5.2022 (STT paid on sale and purchase) | (d) Listed units of Birla Sun Life equity oriented fund acquired on 1.4.2017 (STT paid on sale) |

**M122.** Indexation is available in computing capital gain on transfer of which of the following assets by Raj, a resident, during AY 2023-24?

- |  |  |
|--|--|
| (a) Loose diamonds acquired on 1.4.2021 and sold on 1.4.2022                           | (b) Equity shares of Reliable Ltd. acquired on 1.6.2020 and sold on 1.4.2022 (STT paid on purchase and sale) |
| (c) Unlisted equity shares of Ben Pvt. Ltd. acquired on 1.10.2019 and sold on 1.4.2022 | (d) Listed units of Kotak debt oriented fund acquired on 1.6.2019 and sold on 1.4.2022 (STT paid on sale)    |

**M123.** Unexhausted basic exemption limit, if any, of a non-resident individual for AY 2023-24 can be adjusted against:

- |                             |                             |
|-----------------------------|-----------------------------|
| (a) Only LTCG taxable @ 20% | (b) Only STCG taxable @ 15% |
| (c) Both (a) and (b)        | (d) Neither (a) nor (b)     |

**M124.** Benefit of unexhausted basic exemption limit is available in respect of which of the following?

- |   |   |
|---|---|
| (a) LTCG on all capital assets arising to an individual or HUF  | (b) STCG on all capital assets arising to an individual or HUF, being a resident  |
| (c) STCG on units of EOF or equity share (sale chargeable to STT) and LTCG on all capital assets, arising to a firm where all partners are resident individuals | (d) STCG on units of EOF or equity share (sale chargeable to STT) and LTCG on all capital assets, arising to an individual or HUF, being a resident |

**M125.** For AY 2023-24, Rohit can claim deduction from gross total income u/s 80D in respect of mediclaim premium paid during the year, on which of the following incomes?

- |   |  |
|---|--|
| (a) Capital gain on sale of equity shares (purchased on 1.4.2022 and sold on 1.3.2023) (STT paid) | (b) Capital gain on sale of land (purchased on 1.1.2021 and sold on 1.4.2022)                      |
| (c) Capital gain on sale of personal motor car (purchased on 1.4.2022 and sold on 1.3.2023)       | (d) Capital gain on redemption of zero coupon bonds purchased on 1.4.2020 and redeemed on 1.4.2023 |

**M126.** Saurabh, a resident, will be allowed rebate u/s 87A, if his total income for AY 2023-24 comprises of:

- |   |   |
|---|---|
| (a) Salary of 2 lakh (computed), STCG on sale of gold 2 lakh and LTCG on sale of equity shares (STT paid on purchase and sale) 2 lakh | (b) Salary of 2 lakh (computed), STCG on sale of gold 2 lakh and LTCG on sale of equity shares (STT paid on purchase and sale) 1 lakh |
| (c) IHP of 2 lakh (computed), dividend of 1 lakh, STCG on sale of units of EOF (STT paid on sale) 3 lakh                              | (d) LTCG on sale of equity shares (STT paid on purchase and sale) 5 lakh  |

**M127.** Income-tax on short term and long term capital gain on sale of equity shares (STT paid on purchase and sale), where total income exceeds Rs. 50 lakh, is to be increased by:

- (a) SC of 25% and HEC of 4% (b) SC of 10% and Nil HEC  
(c) SC (cannot exceed 15%) and HEC of 4% (d) Nil SC and HEC of 4%

**M128.** Tax is leviable on long-term capital gain and short-term capital gain on sale of equity shares or units of EOF (STT paid) exceeding Rs. 1 lakh.

- (a) True (b) False

**M129.** To get the maximum benefit, unexhausted basic exemption limit can be adjusted first against capital gain u/s 112, then capital gain u/s 111A and then capital gain u/s 112A.

- (a) True (b) False

**M130.** Gain arising till 31.1.2018 can be grandfathered in computing capital gain on transfer of which of the following capital assets on 1.4.2022?

- (a) Unlisted equity shares acquired on 1.1.2017 (b) Units of mutual fund (which invests 60% proceeds in listed equity shares of domestic companies) acquired on 1.1.2016  
(c) Equity shares acquired on 1.1.2000 (STT paid only on sale) (d) Equity shares acquired on 1.1.2019 (STT paid on purchase and sale)

**M131.** Cost of acquisition of equity shares or units of EOF, referred u/s 112A and acquired before 1.2.2018 is taken as:

- (a) Higher of (a) cost of acquisition and (b) higher of FMV on 1.4.2001 or consideration (b) Higher of (a) cost of acquisition and (b) FMV on 31.1.2018  
(c) Higher of (a) cost of acquisition and (b) lower of FMV on 31.1.2018 or consideration (d) Higher of (a) cost of acquisition and (b) higher of FMV on 31.1.2018 or consideration

**M132.** For computing FMV of unit of equity oriented fund (referred u/s 112A) on 31.1.2018 for the purpose of determining cost of acquisition, its NAV on 31.1.2018 is taken in which of the following cases?

- (a) Unit is listed on 31.1.2018 (b) Unit is not listed on 31.1.2018  
(c) Unit is listed on 31.1.2018 but not traded on this date (d) None of the above

**M133.** For computing FMV of equity share (referred u/s 112A) on 31.1.2018 for the purpose determining the cost of acquisition, its highest price quoted on 31.1.2018 is taken in which of the following cases?

- (a) Listed but not traded on 31.1.2018 (b) Listed on 31.1.2018 but last traded on 30.1.2018  
(c) Listed and traded on 31.1.2018 (d) Not listed on 31.1.2018 but traded on this date

**M134.** Bhaskar acquires 100 equity shares on 1.1.2017 at Rs. 200. FMV of shares on 31.1.2018 is Rs. 500. He sells these shares on 30.4.2022 at Rs. 400. Calculate the capital gain. STT was paid by Bhaskar on acquisition and transfer.

- (a) Nil (b) (-) 1,00,000  
(c) 2,00,000 (d) 3,00,000

**M135.** Bony purchased 100 equity shares of Zydus Ltd. on 1.4.1999 @ Rs. 100 per share. FMV on 1.4.2001 was Rs. 150 per share. He gifted the shares to his daughter, Sony, on 1.4.2005. Sony sold all the shares on 1.4.2022 @ Rs. 1,000 per share after paying STT. The highest, average and lowest price quoted on the stock exchange on 31.1.2018 was Rs. 800, Rs. 750 and Rs. 720. Calculate the capital gain from sale of shares for AY 2023-24 in the hands of Sony.

- (a) LTCG of 52,450 (b) LTCG of 6,765  
(c) LTCG of 20,000 (d) LTCG of 25,000

**M136.** Vinay purchased 100 equity shares of Reliable Ltd on 1.4.2016 @ Rs. 500 per share (STT paid). He was allotted bonus shares in the ratio of 1:2 on 1.10.2021. Vinay sold all the shares on 1.4.2022 @ 475 per share (STT paid). The shares were not traded on the stock exchange on 31.1.2018 although quoted at Rs. 400 on this date (last traded on 25.1.2018 at the highest quoted price of Rs. 450 and thereafter on 3.2.2018 at the highest quoted price of Rs. 430). Calculate capital gain for AY 2023-24.

- (a) LTCG of 2,500; STCG of 23,750 (b) LTCG of (-) 2,500; STCG of 23,750  
(c) LTCG of (-) 12,538; STCG of 23,750 (d) LTCG of (-) 4,945; STCG of 23,750

**M137.** Jagan purchased 1,000 units of HDFC equity oriented fund on 1.4.2017 @ Rs. 50 per unit. He sold all the units on 1.4.2022 @ Rs. 100 per unit (STT paid). While the units were not listed on a stock exchange, the NAV on 31.1.2018 was Rs. 75 per unit. Compute the capital gain for AY 2023-24.

- (a) LTCG of 12,592 (b) LTCG of 41,728  
(c) LTCG of 25,000 (d) LTCG of 50,000

**M138.** Taxable income of Ramu, a resident aged 35 years, for the AY 2023-24 comprises the following: Business income Rs. 1,00,000, short term capital gain on sale of equity shares (STT paid on sale) Rs. 50,000, long term capital gain on sale of units of equity oriented mutual fund (STT paid on sale) Rs. 1,50,000 and short term capital gain on sale of gold Rs. 1,80,000. He deposited Rs. 30,000 in his PPF account during the year. Compute his tax liability. Ramu has not opted for section 115BAC.

- (a) 5,000 (b) 10,200  
(c) 4,000 (d) 5,200

**M139.** Mr. Fancy, a non-resident aged 85 years, has the following taxable income for AY 2023-24: Pension Rs. 1 lakh (computed), short term capital gain on sale of units of equity oriented fund Rs. 1 lakh, long term capital on sale of units of equity oriented fund Rs. 2 lakh and units of debt oriented fund Rs. 1 lakh. He deposited Rs. 1.5 lakh in his PPF account during the year. STT has been paid as applicable. He has not opted for section 115BAC. Compute his tax liability.

- (a) Nil (b) 46,800  
(c) 14,500 (d) 20,800

**M140.** Mr. Raja, a resident but not ordinarily resident, turned 60 years of age on 31.3.2023. Taxable income for AY 2023-24 comprised the following: Pension Rs. 1,00,000 (computed), short term capital gain on sale of equity shares (STT paid on sale) Rs. 50,000 and on sale of gold Rs. 1,00,000, long term capital gain on sale of equity shares (STT paid on purchase and sale) Rs. 2,20,000 and on sale of a painting Rs. 1,20,000. He deposited Rs. 1,50,000 in his PPF account during the year. Mr. Raja has not opted for section 115BAC. Compute his tax liability.

- (a) 9,650 (b) 5,440  
(c) 4,160 (d) Nil

**M141.** During the PY 2022-23, Ranveer has STCG of Rs. 95 lakh taxable u/s 111A, LTCG of Rs. 110 lakh taxable u/s 112A and business income of Rs. 90 lakh. Which of the following statements is correct in respect of surcharge (SC)?

- (a) SC @ 25% is leviable on tax computed on total income of 2.95 crore (b) SC @ 15% is leviable on tax computed on total income of 2.95 crore  
(c) SC @ 25% is leviable on tax computed on business income and @ 15% on the remaining of total income (d) SC @ 15% is leviable on tax computed on capital gain of 2.05 crore and @ 10% on tax computed on business income

**M142.** Zee, resident of age 65 years, has the following taxable income during the AY 2023-24: business income 1.50 crore, short term capital gain taxable u/s 111A Rs. 30 lakh and long term capital gain taxable u/s 112A Rs. 40 lakh. Compute his tax liability. Zee has not opted for section 115BAC.

- (a) 61,59,400 (b) 62,59,400  
(c) 56,59,400 (d) 60,59,400

**M143.** Zee, resident of age 40 years, has the following taxable income during the AY 2023-24: business income 3 crore, short term capital gain taxable u/s 111A Rs. 30 lakh and long term capital gain taxable u/s 112 Rs. 40 lakh. Compute his tax liability. Zee has not opted for section 115BAC.

- (a) 56,34,450 (b) 81,34,450  
(c) 91,34,450 (d) 1,29,51,250

## Answer Key for MCQs

M1 A; M2 A; M3 C; M4 C; M5 B; M6 D; M7 C; M8 C; M9 D; M10 C; M11 C; M12 B; M13 B; M14 B; M15 A; M16 A; M17 A; M18 D; M19 C; M20 D; M21 C; M22 D; M23 B; M24 D; M25 B; M26 B; M27 C; M28 B; M29 B; M30 A; M31 C; M32 B; M33 C; M34 C; M35 C; M36 A; M37 B; M38 D; M39 B; M40 C; M41 C; M42 A; M43 A; M44 A; M45 B; M46 B; M47 C; M48 C; M49 B; M50 C; M51 B; M52 C; M53 D; M54 A; M55 A; M56 B; M57 C; M58 B; M59 A; M60 A; M61 D; M62 D; M63 B; M64 C; M65 B; M66 D; M67 C; M68 B; M69 C; M70 B; M71 C; M72 D; M73 D; M74 C; M75 C; M76 A; M77 A; M78 A; M79 B; M80 D; M81 D; M82 C; M83 D; M84 A; M85 D; M86 C; M87 D; M88 C; M89 A; M90 D; M91 C; M92 B; M93 A; M94 B; M95 B; M96 A; M97 B; M98 C; M99 D; M100 C; M101 B; M102 B; M103 C; M104 D; M105 C; M106 A; M107 C; M108 D; M109 D; M110 A; M111 B; M112 D; M113 C; M114 A; M115 D; M116 C; M117 A; M118 A; M119 C; M120 C; M121 B; M122 C; M123 D; M124 D; M125 B; M126 B; M127 C; M128 B; M129 A; M130 C; M131 C; M132 B; M133 C; M134 A; M135 C; M136 B; M137 C; M138 D; M139 B; M140 C; M141 B; M142 A; M143 D

## Hints to MCQ answers

**M3.** A and B: Specifically excluded from the definition of capital asset. D: Personal effect. C: Not a personal effect.



- M4.** A: Land is outside India. B: Land is not agricultural. C: Agricultural land situated beyond 8 kms from local limits of area with population > 10 lakh is rural. D: Land within municipal limits is not rural.
- M5.** First land is rural agricultural land as situated beyond 6 kms from local limits of municipality: No capital gain. Second land is urban agricultural land as situated within 2 kms from local limits of municipality. STCG (as POH is not > 24 months) = 53 – 46 = 7 lakh.
- M6.** A: Not a capital asset. B and C: Asset is personal effect and, thus, not a capital asset. D: Treated as transfer u/s 2(47).
- M7.** A. Transaction which has the effect of transferring, or enabling the enjoyment of, any immovable property is a transfer. B. Transaction involving the allowing of the possession of any immovable property to be taken or retained in part performance of a contract referred to u/s 53A of the Transfer of Property Act, 1882 is a transfer. C. Capital gain is taxable in PY 2023-24 in which capital asset is transferred. D. Sale of capital asset is a transfer.
- M8.** A. POH is not > 24 months. B. Fund is not equity oriented fund. POH is not > 36 months. C. POH is > 12 months. D. Stock-in-trade of business is not a capital asset.
- M9.** A and B: POH is > 24 months. C: Fund is equity oriented fund. POH is > 12 months. D. POH is not > 36 months.
- M11.** Capital expenditure incurred before 1.4.2001 is not part of COI.
- M15.** Since capital gain is LTCG as POH is > 24 months
- M16.** A: It is LTCG as POH is > 24 months and, thus, indexation is allowed. B: Section 111A covers STCG. C: Transfer of depreciable asset forming part of block of assets is STCG. D: Indexation is not available u/s 112A
- M17.** FVC = 10 lakh + 5 lakh + 18 lakh (FMV of asset received on date of transfer) = 33 lakh. Gain is STCG as POH is not > 24 months (1.7.2020 to 15.6.2022). COA = 12 lakh (cost to previous owner). STCG = 33 lakh – 12 lakh = 21 lakh.
- M18.** Gain is STCG as POH is not > 36 months. STCG = FVC of 5 lakh u/s 50D (FMV of asset transferred on the date of transfer as consideration is not ascertainable) – 2 lakh cost = 3 lakh.
- M19.** It is STCG as POH is not > 24 months. STCG = 50,00,000 FVC – 30,30,000 COA (30,00,000 purchase price + 30,000 brokerage) – 1,00,000 Expenditure on transfer (50,000 brokerage + 50,000 legal charges) = 18,70,000
- M20.** FVC = 2 crore. // Expenditure on transfer = 2,00,000. // COA = Higher of 50,50,000 cost (50 lakh + 1% brokerage) or 55,50,000 (FMV on 1.4.2001 which can't exceed SDV on this date) = 55,50,000. // ICOA = 55,50,000 × (331/100) = 1,83,70,500. // LTCG = FVC – Expenditure on transfer – ICOA = 14,29,500. Painting/repair is not part of COI as it is not capital in nature.
- M21.** FVC = 50,00,000. // COA = 20,00,000. ICOA = COA × (331/148) = 44,72,973. // COI = 5 lakh. ICOI = COI × (331/317) = 5,22,082. // LTCG = FVC – ICOA – ICOI = 4,945
- M22.** Sum forfeited by previous owner is not deducted from COA u/s 51. It is also not taxable as IFOS as it is forfeited before 1.4.2014.
- M23.** FVC = 80,00,000. // COA (of previous owner, i.e., Rajan) = 15,00,000 (Higher of 10 lakh cost or 15 lakh (FMV on 1.4.2001 which can't exceed SDV on this date)) – Nil forfeited by previous owner not deducted u/s 51 – 1,00,000 forfeited from Somil deducted u/s 51 – Nil forfeited from Monu as taxable under the head IFOS for PY 2019-20 (since not forfeited before 1.4.2014) = 14,00,000. // ICOA = COA × (331/100) = 46,34,000. // LTCG = FVC – ICOA = 33,66,000.
- M25.** It means the FMV on date capital asset was acquired by previous owner
- M26.** From the year of acquisition by previous owner
- M27.** FVC = 50,00,000. // COA (for D, last previous owner acquiring the asset by a mode not listed u/s 49(1)) = Higher of 10,00,000 cost or 9,00,000 (FMV on 1.4.2001 which can't exceed SDV on this date) = 10,00,000. // ICOA = COA × (331/100) = 33,10,000. // COI = Nil as incurred by D before 1.4.2001. // LTCG = FVC – ICOA – ICOI = 16,90,000
- M31.** Depreciation is not allowable since the block ceases to exist. STCG u/s 50 = FVC 8 lakh – Actual cost of machine 10 lakh = (2 lakh)
- M32.** WDV as on 1.4.2022 = 8,00,000 cost of Machine B – 60,000 (50% depreciation as put to use for < 180 days) = 7,40,000. // WDV for depreciation for PY 2022-23 = 7,40,000 opening WDV + 10,00,000 actual cost of Machine C – 6,00,000 moneys payable for Machine B = 11,40,000. // Depreciation = 50% of 15% of 10 lakh (as Machine C put to use for < 180 days) and 15% on remaining 1.4 lakh = 96,000. No capital gain arises.
- M33.** WDV for depreciation = Opening WDV 20 lakh + actual cost of additional patent 5 lakh – moneys payable for old patent 35 lakh = Nil (WDV cannot be negative). No depreciation as WDV is nil. // STCG u/s 50 = FVC 35 lakh – opening WDV 20 lakh – actual cost of asset acquired during the PY 5 lakh = 10 lakh.
- M34.** Road accident not covered u/s 45(1A). Not taxable as the asset ceases to exist.
- M35.** Block of assets ceases to exist. Hence, no depreciation. STCG u/s 50 = FVC 95,000 (value of money + FMV of replacement on date of receipt) – opening WDV 1,00,000 = (5,000).
- M36. House:** FVC = 10 lakh insurance compensation. COA = 10 lakh. ICOA = COA × (317 (CII of 2021-22 being year of destruction) / 280 (CII of 2018-19)) = 11,32,143. LTCG = FVC – ICOA = (1,32,143). // **Car:** No capital gain as it is personal effect. // **SIT:** Taxable under the head PGBP, not capital gain.
- M37.** U/s 45(2), year of transfer of capital asset is the year of conversion of capital asset into stock-in-trade but capital gain is taxable (along with business income) in the year in which stock-in-trade is sold. Indexation runs till the year of conversion. FMV of capital asset on date of conversion is the FVC.
- M38. Capital gain u/s 45(2):** FVC = 2,50,000 (50% of 5 lakh FMV on date of conversion). COA = 50,000 (50% of 1 lakh). ICOA = COA × (CII of 2020-21 being the PY of conversion 301/CII of 2010-11 being 167) = 90,120. LTCG = FVC – ICOA = 1,59,880. // **Business income** = 4,00,000 sale price – 2,50,000 FMV on date of conversion = 1,50,000.
- M39.** Tax treatment will be u/s 28(via) and 49(9). STCG will arise as POH from date of conversion to date of sale is not > 36 months.

**M40.** Initial compensation is taxable in PY 2021-22 (AY 2022-23) in which it is first received. Interim compensation is taxable in PY 2023-24 (AY 2024-25) in which the final order is made. Pending amount (further enhanced compensation) is taxable in PY 2023-24 (AY 2024-25) in which it is received.

**M41.** Taxable on receipt basis under the head IFOS after 50% flat deduction.

**M42. Initial compensation** taxable in PY 2022-23 in which it is first received: Cost and POH is taken with reference to the previous owner. Gain is LTCG as POH is > 24 months.  $FVC = 30,00,000$  initial compensation.  $COA = 20,00,000$ .  $ICOA = COA \times (CII \text{ of } 2021-22 \text{ (year of compulsory acquisition), } 317 / CII \text{ of } 2016-17, 264) = 24,01,515$ .  $LTCG = FVC - ICOA = 5,98,485$ . **Enhanced compensation** taxable in PY 2022-23 in which final order is made:  $LTCG = 5,00,000$  compensation – 50,000 expenditure on transfer – NIL  $COA/COI = 4,50,000$ . **Total LTCG = 10,48,485**

**M43.** Section 45(5A) is not applicable to a company. Capital gain is taxable in PY 2021-22, i.e., AY 2022-23 in which possession handed over as it is treated as a transfer u/s 2(47).

**M44.** Capital is taxable u/s 45(5A) in the PY in which COC is obtained (for whole or part of project), i.e., PY 2022-23.  $FVC = 30$  lakh (SDV of his share on date of issue of COC) + 20 lakh cash = 50 lakh.  $COA = 25$  lakh.  $ICOA = COA \times (CII \text{ of } 2021-22, 317 / CII \text{ of } 2017-18, 272) = 29,13,603$ .  $LTCG = FVC - ICOA = 20,86,397$ .

**M45.** Year of transfer u/s 45(2) is the year of conversion.

**M51.** Consideration can be taken as FVC as SDV is not > 110% of consideration. SDV on date of agreement can be considered as consideration (or part) is received on or before that date by a specified mode (RTGS).

**M52.** STCG (as POH is not > 24 months) =  $FVC \text{ u/s } 50C \text{ of } 50 \text{ lakh (as SDV of } 55 \text{ lakh is not } > 110\% \text{ of } 50 \text{ lakh)} - COA \text{ of } 30 \text{ lakh} = 20 \text{ lakh}$ . SDV on date of agreement is not considered as consideration (or part) is not received on or before that date by a specified mode.

**M53.**  $FVC \text{ u/s } 50C = 21$  lakh as valuation by valuation officer of 21 lakh is not > SDV of 23 lakh.  $COA = 15$  lakh.  $STCG \text{ (as POH is not } > 24 \text{ months)} = 21 - 15 = 6$  lakh.

**M55.** 30 lakh will be taken as FVC u/s 50C since SDV of 32 lakh is not > 110% of consideration of 30 lakh

**M57.**  $FVC \text{ is } @ 5,500 \text{ u/s } 50CA \text{ (since consideration is } < \text{ FMV on } 15.2.2023)$ .  $STCG \text{ (as POH is not } > 24 \text{ month)} = 5,500 - 3,000 = 2,500$  per share = 2,50,000 for 100 shares.

**M58.** U/s 55A, where the value of the asset as claimed by the assessee is in accordance with the estimate made by a registered valuer, AO can refer the valuation to the valuation officer if he is of opinion that the value so claimed is at variance with its FMV.

**M59.** AO can refer the valuation to the valuation officer u/s 55A if he is of the opinion that FMV exceeds the value claimed by the assessee by more than 15% or by more than Rs. 25,000 (in this case).

**M62.** POH runs from date of offer of right by the company

**M63.** It is STCG as the POH would not exceed 36 months.

**M64.** Rana:  $STCG \text{ on renouncement (as POH is not } > 36 \text{ months)} = FVC 20,000 - COA \text{ Nil} = 20,000$ . // Sana:  $STCG \text{ on sale of shares (as POH is not } > 24 \text{ months from date of allotment)} = FVC 1,00,000 - COA 60,000 \text{ (@ } 200 \text{ paid to Rana + } 400 \text{ paid to PQR Ltd.)} = 40,000$ .

**M65.** Original shares:  $LTCG \text{ (as POH is } > 12 \text{ months)}: FVC 12,00,000 - ICOA 9,39,748 \text{ (} 9,00,000 \times (331/317) = 2,60,252$ . // Bonus (1,000 shares):  $STCG \text{ (as POH is not } > 12 \text{ months)} = 4,00,000 - \text{Nil} = 4,00,000$ .

**M66.**  $LTCG \text{ on original } 100 \text{ shares: } FVC = 1,00,000; COA = 10,000 \text{ (higher of cost or FMV on } 1.4.2001); ICOA = 33,100 \text{ (} COA \times (331/100))$ ;  $LTCG = 66,900$ . //  $LTCG \text{ on } 50 \text{ right shares: } FVC = 50,000; COA = 10,000; ICOA = 12,538 \text{ (} COA \times (331/264))$ ;  $LTCG = 37,462$ . //  $\text{Total } LTCG = 1,04,362$ . //  $STCG \text{ on } 50 \text{ bonus shares: } FVC = 50,000; COA = \text{Nil}; STCG = 50,000$ .

**M68.**  $STCG \text{ will arise. } FVC = 6,00,000$ .  $COA @ 200 \text{ for } 1,000 \text{ shares and } @ 300 \text{ for } 200 \text{ shares} = 2,60,000$ .  $STCG = 3,40,000$

**M69.**  $FVC = 2,000 \text{ shares } @ 600 = 12,00,000$ . //  $COA = 5,00,000 \text{ (cost of preference shares)}$ .  $ICOA = 12,08,029 \text{ (} COA \times (331/137))$ . //  $LTCG = FVC - ICOA = (8,029)$

**M71.** Income is exempt for Sheryl u/s 10(34A). // Distributed income for buy back tax on Shine Ltd. = 50 per share – 15 per share = 35 per share = 3.5 lakh

**M73.**  $FVC \text{ (} 1,000 \text{ shares } @ 50 \text{ per share)} = 50,000$ . Shares purchased =  $1,000 / 5 = 200$  shares.  $COA = 200 \text{ shares } @ 100 = 20,000$ .  $ICOA = 22,907 \text{ (} COA \times (331/289))$ .  $LTCG = 27,093$ .

**M75.**  $STCG \text{ will arise. POH computed from } 1.3.2022 \text{ being date of allotment. } FVC = 15 \text{ lakh. } COA @ 1000 \text{ being FMV on date of exercise of option} = 10 \text{ lakh. } STCG = 5 \text{ lakh}$

**M76.** Debentures:  $LTCG \text{ will arise; indexation not available on debentures; } LTCG = FVC 30,000 \text{ (} 50 \text{ debentures } @ 600 \text{ each)} - COA 25,000 \text{ (} 50 \text{ debentures } @ 500 \text{ each)} = 5,000$ . **Shares:**  $LTCG \text{ will arise; } FVC = 60,000 \text{ (} 50 \text{ shares } @ 1,200 \text{ each)}; COA = 25,000 \text{ (} 50 \text{ debentures } @ 500 \text{ each)}; ICOA = 31,345 \text{ (} COA \times (331/264))$ ;  $LTCG = 28,655$  **Total LTCG = 33,655**

**M81.**  $LTCG = FVC 50,00,000 - COA \text{ Nil} - \text{Expenditure on transfer } 10,000 = 49,90,000$

**M82.**  $STCG \text{ will arise. License} = FVC 20 \text{ lakh} - COA 10 \text{ lakh} = 10 \text{ lakh}$ . Trademark of profession =  $FVC 10 \text{ lakh} - COA \text{ Nil} = 10 \text{ lakh}$ .  $\text{Total } STCG = 20 \text{ lakh}$ .

**M83.**  $LTCG \text{ will arise. } FVC = 2,00,000$ .  $COA \text{ (to Gopal)} = 1,00,000$ .  $ICOA = 1,21,691 \text{ (} COA \times (331/272))$ .  $LTCG = 78,309$ .

**M84.** Events 1 are 2 are not liable to capital by virtue of sections 47(vi) and 47(vii).

**M85.**  $LTCG \text{ will arise; } FVC = 20,00,000 \text{ (} 5,000 \text{ shares } @ 400)$ ;  $COA = 10,00,000 \text{ (} 1,000 \text{ shares } @ 1,000)$ ;  $ICOA = 11,45,329 \text{ (} COA \times (331/289))$ .  $LTCG = 8,54,671$

**M87.** A.  $STCG \text{ will arise as POH is not } > 36 \text{ months}$ ; B.  $COA \text{ and } COI \text{ is the net worth}$ ; C.  $PGBP \text{ will not arise}$ . D. This is the correct option.

**M88.** FVC = FMV on date of transfer = 30 crore; Net Worth = Tax WDV of depreciable assets 10 core + Book value of land 5 crore (ignoring revaluation) + Book value of other assets 10 crore – Liability as per books 5 crore = 20 crore. LTCG u/s 50B (as POH is > 36 months; indexation is not available) = 30 crore – 20 crore = 10 crore.

**M89.** Exempt u/s 47(ix).

**M95.** Runs from the date of transfer of original asset.

**M102.** A: No as original asset is not a residential house. C: No as residential house is not constructed within 3 years after 1.4.2022. D: No as gain is not LTCG.

**M103.** Option C is correct since the new asset (residential house) is not in India.

**M105.** Exemption can be claimed u/s 54. /// AY 2023-24: Cost of new asset = 25 lakh purchase within 1 year before 1.12.2022 + 25 lakh CGAS deposit = 50 lakh. LTCG = 50 lakh – 50 lakh exempt u/s 54 = Nil. /// AY 2026-27: LTCG of 5 lakh in CGAS not utilized within 3 years after 1.12.2022. /// Exemption is allowed, under the one-time option, for 2 houses as capital gain is not > 2 crore.

**M106.** AY 2022-23: LTCG = 8,40,000 – 5,00,000 exempt u/s 54 on purchase of another house = 3,40,000. /// AY 2023-24: STCG (as POH is not > 24 months) = 14,00,000 FVC – Nil COA (COA = Cost of 5 lakh – Capital gain exempted earlier of 5 lakh, since it is sold within 3 years of its purchase) = 14,00,000

**M107.** AY 2023-24: LTCG = 25 lakh – Exemption u/s 54 of 20 lakh (for purchase of 2 houses within 2 years after 1.5.2022; this one-time option can be exercised as capital gain is not > 2 crore) = 5 lakh. /// AY 2025-26: STCG (as POH is not > 24 months) on sale of new house within 3 years of its purchase = 15 lakh FVC u/s 50C – Nil COA (cost 10 lakh – capital gain exempted earlier 10 lakh) = 15 lakh.

**M108.** A: Capital gain does not arise on transfer of rural agricultural land and new land cannot be used for agriculture. B: Land not used for agriculture for 2 years preceding 1.4.2022. C: Capital gain is exempt u/s 10(37).

**M109.** Land is rural agricultural land as it is situated beyond 6 kms from the local limits of Modinagar. Capital gain does not arise.

**M110.** Original land: It is not rural agricultural land as it is situated within 8 kms from local limits of Pune. Exemption can be claimed u/s 54B. COA = 10,00,000. ICOA = 12,53,788 (COA × 331/264); LTCG for AY 2023-24 = 30,00,000 FVC – 12,53,788 ICOA – 15,00,000 exemption u/s 54B on purchase of new agricultural land within 2 years after 1.4.2022 = 2,46,212. /// AY 2026-27: No capital gain as the new land is rural agricultural land.

**M111.** A: Land is not used in the manufacturing unit in the 2 years preceding 1.4.2022. C: New asset is not land or building; D: Transfer is not by way of compulsory acquisition.

**M112.** A: Exemption not available for investment in corporate bonds. B: Exemption not available on STCG. C: Exemption not available as bonds not purchased within 6 months after transfer of house.

**M113.** AY 2023-24: LTCG = 65 lakh – 45 lakh exempt u/s 54EC on purchase of bonds within 6 months = 20 lakh. // AY 2025-26: LTCG (as RECL bonds are sold within 5 years of purchase) = 15 lakh exempted earlier u/s 54EC for RECL bonds.

**M114.** AY 2023-24: LTCG = 60 lakh – 50 lakh exempt u/s 54EC on purchase of bonds within 6 months = 10 lakh. // AY 2026-07: LTCG (as loan is taken on security of bonds within 5 years of purchase) = 20 lakh exempted earlier.

**M115.** AY 2023-24: LTCG = 50 lakh – 30 lakh exempt u/s 54EC on purchase of bonds within 6 months = 20 lakh. /// AY 2024-25: STCG on sale of diamond = 12 lakh FVC – 10 lakh cost = 2 lakh. STCG on sale of bonds = 15 lakh FVC – 10 lakh cost = 5 lakh. Since these bonds were not exempt earlier u/s 54EC, STCG is computed as per regular provisions. Total STCG = 7 lakh.

**M116.** The case is covered u/s 45(2). Transfer takes place in the year of conversion but capital gain is taxable in the year in which stock-in-trade is sold. Period of 6M u/s 54EC runs from the date stock-in-trade is sold. /// AY 2023-24: COA = 20,00,000; ICOA = 22,13,235 (COA × CII of 2020-21, 301 / CII of 2017-18, 272). LTCG u/s 45(2) = 40,00,000 FMV on date of conversion – 22,13,235 – 10,00,000 exempt u/s 54EC on purchase of bonds within 6 months = 7,86,765. /// PGBP = 50,00,000 u/s 43CA (as SDV is > 110% of consideration) – 40,00,000 FMV on date of conversion = 10,00,000.

**M117.** AY 2023-24: LTCG = 75 lakh – 25 lakh exemption u/s 54EC on purchase of NHAI bonds within 6 months – 25 lakh exemption u/s 54 on deposit in CGAS = 25 lakh. // Purchase of Kathmandu house is not eligible for exemption u/s 54 as it is not in India. Purchase of Patna house is not eligible for exemption u/s 54 as it is not purchased within 2 years after 1.2.2023. // AY 2026-27: Capital gain on CGAS deposit not utilized within 3 years from 1.2.2023 = LTCG of 25 lakh not utilized.

**M118.** B: Raje owns more than 1 residential house (other than new asset) on the date of transfer. C: Gain is STCG. D: Residential house is not purchased in India.

**M119.** Purchased a residential house (other than the new asset) within 2 years after the transfer of original asset.

**M120.** AY 2023-24: Exemption u/s 54F on sale of commercial building and deposit in CGAS = 35 lakh capital gain × (30 lakh cost of new asset (deposit in CGAS) / 50 lakh net consideration) = 21 lakh. LTCG = 35 lakh – 21 lakh = 14 lakh. /// AY 2025-26: Capital gain forfeited on purchase of residential house (other than the Jodhpur house) within 2 years after transfer of commercial building. LTCG = 21 lakh exempted earlier.

**M121.** A: LTCG u/s 112 @ 20%; B: STCG taxable at 30% regular rate; C: STCG u/s 111A @ 15%; D: LTCG u/s 112A @ 10%.

**M122.** A: No indexation as gain is STCG; B: No indexation u/s 112A; C: Indexation allowed as gain is LTCG u/s 112; D: No indexation as gain is STCG.

**M123.** UBEL benefit is available only to a resident individual/HUF.

**M124.** A. Not available to a non-resident. B. Not available on normal STCG taxable at regular rates. C. Not available to a firm.

**M125.** A: No from capital gain u/s 111A; B: Yes from normal STCG taxable at regular rates; C: No capital gain as it is a personal effect; D: No from capital gain u/s 112

- M126.** A/C. Not allowed as total income is > 5 lakh. D. Not allowed from tax u/s 112A. B. Allowed as total income is not > 5 lakh (but it will not be allowed from tax on LTCG u/s 112A).
- M128.** Threshold of 1 lakh is available only u/s 112A; not u/s 111A
- M130.** A/B: Capital asset is not covered u/s 112A. D: Capital asset is not acquired before 1.2.2018. C: Capital asset is covered u/s 112A and acquired before 1.2.2018 (not necessary that STT be paid on acquisition as shares are acquired before 1.10.2004 when STT came into force).
- M134.** Equity share is covered u/s 112A and acquired before 1.2.2018. COA per share = Higher of (A) cost of 200 or (B) Lower of FMV of 500 or FVC of 400 = 400. LTCG u/s 112A per share = 400 FVC – 400 COA = Nil
- M135.** Equity share is covered u/s 112A and acquired before 1.2.2018. COA per share = Higher of (A) cost of 150 (higher of cost of 100 or FMV on 1.4.2001 of 150) and (B) lower of FMV of 800 or FVC of 1000 = 800. Capital gain per share = 1,000 FVC – 800 COA = 200.
- M136.** Original shares: LTCG as POH is > 12 months. Covered u/s 112A and acquired before 1.2.2018. COA per share = Higher of (A) cost of 500 and (B) lower of FMV 450 or FVC 475 = 500; LTCG per share = 475 – 500 = (25). LTCG = (2500). /// Bonus shares: STCG as POH is not > 12 months. STCG per share = FVC 475 – COA nil = 475. STCG for 50 shares = 23,750
- M137.** Unit is covered u/s 112A and acquired before 1.2.2018. COA per unit = Higher of (A) cost 50 and (B) lower of FMV 75 or FVC 100 = 75. LTCG per unit = 100 – 75 = 25.
- M138.** Total income = 4,80,000 GTI – 30,000 deduction u/s 80C = 4,50,000. // Income comprised in total income = STCG u/s 111A of 50,000, LTCG u/s 112A of 1,50,000, other income of 2,50,000. // Tax u/s 111A (15% of 50,000) = 7,500. Tax u/s 112A on capital gain exceeding Rs. 1 lakh (10% of 50,000) = 5,000. Tax at regular rates (on 2,50,000) = Nil. Rebate u/s 87A on tax u/s 111A (not available on tax u/s 112A) = 7,500. // Tax = 5,000 + 4% HEC = 5,200
- M139.** Total income = 5,00,000 GTI – 1,00,000 deduction u/s 80C (available only on pension) = 4,00,000. Benefit of unexhausted BEL is not available to a NR. // Income comprised in total income = STCG u/s 111A of 1,00,000, LTCG u/s 112A of 2,00,000, LTCG u/s 112 of 1,00,000, pension NIL. // Tax u/s 111A (15% of 1,00,000) = 15,000. Tax u/s 112A on capital gain exceeding Rs. 1 lakh (10% of 1,00,000) = 10,000. Tax u/s 112 (20% of 1,00,000) = 20,000. Total = 45,000. Rebate u/s 87A not available to a NR. Tax = 45,000 + 4% HEC = 46,800.
- M140.** He is a senior citizen. Total income = 5,90,000 GTI – 1,50,000 deduction u/s 80C (allowed from pension and normal STCG on sale of gold) = 4,40,000. /// Income comprised in total income = STCG u/s 111A of 50,000, LTCG u/s 112A of 2,20,000, LTCG u/s 112 of 1,20,000 and normal income of 50,000. /// Unexhausted BEL = 3,00,000 BEL – 50,000 normal income = 2,50,000. To get maximum benefit, adjust 1,20,000 from LTCG u/s 112, 50,000 from STCG u/s 111A and 80,000 from LTCG u/s 112A. Balance LTCG u/s 112A = 1,40,000. /// Tax u/s 112A on capital gain exceeding Rs. 1 lakh (10% of 40,000) = 4,000. Tax on other income of 50,000 is Nil. Rebate u/s 87A not allowed from tax u/s 112A. Tax = 4,000 + 4% HEC = 4,160.
- M141.** Total income = 2.95 crore. Income, other than u/s 111A/112A is 90 lakh (i.e., up to 2 crore). SC will be levied at 15% on entire income.
- M142.** Total income of 2.2 crore comprises STCG u/s 111A of 30 lakh, LTCG u/s 112A of 40 lakh, other income of 1.5 crore. // Tax = U/s 111A @ 15% (4,50,000) + u/s 112A @ 10% of 39 lakh (3,90,000) + on normal income at regular rates (43,10,000) = 51,50,000. // Total income = 2.2 crore. Income, other than u/s 111A/112A is 1.5 crore (i.e., up to 2 crore). SC will be levied at 15% on entire income. // Tax + 15% SC on tax + 4% HEC (on tax and SC) = 61,59,400.
- M143.** Total income of 3.7 crore comprises STCG u/s 111A of 30 lakh, LTCG u/s 112 of 40 lakh and other income of 3 crore. // Tax = U/s 111A (@ 15%) 4,50,000 + U/s 112 (@ 20%) 8,00,000 + on normal income at regular rates (business income) 88,12,500 = 1,00,62,500. // Total income = 3.7 crore. Income, other than u/s 111A and 112, is 3 crore (i.e., > 2 crore and up to 5 crore). SC will be levied at 15% on tax u/s 111A and 112 and at 25% on tax on other income. // SC = 15% on 111A/112 tax (1,87,500) + 25% of remaining tax (22,03,125) = 23,90,625. // Tax + SC = 1,24,53,125. Tax & SC + 4% HEC = 1,29,51,250.



## 9

# Income From Other Sources

## Build Your Confidence (BYC)

### Dividend

**B1-9. Dividend u/s 2(22)(e)** – Determine whether the following payments are to be treated as dividend u/s 2(22)(e) for AY 2023-24:

#	Particulars
1	Jayant holds 15% equity shares in BCD Pvt. Ltd. The company advanced Rs. 10 lakh to Jayant on 15.5.2022 at 12% p.a. rate of interest (market rate is 12% p.a.). Jayant repaid the loan on 1.3.2023. Accumulated profits of BCD Pvt. Ltd. are Rs. 15 lakh as on 15.5.2022.
2	Jayant holds 10% equity shares in JKL Pvt. Ltd. On 15.5.2022, the company advanced Rs. 20 lakh to the HUF of which Jayant is a member entitled to 25% income. Accumulated profits of the company on 15.5.2022 were Rs. 15 lakh.
3	Jayant holds 25% equity shares in PQR Ltd., a company in which the public are not substantially interested. The company gave loan on 1.5.2022 of Rs. 15 lakh to Suyash who is not a shareholder in the company. Suyash, in turn, gave loan of Rs. 15 lakh to Jayant on 15.5.2022. Accumulated profits of the company on 1.5.2022 were Rs. 75 lakh.
4	Jayant holds 15% equity shares in DEF Pvt. Ltd. The company is primarily engaged in the business of money lending. DEF Pvt. Ltd. advanced a loan of Rs. 30 lakh to Jayant in the ordinary course of its business at market rate of 15%.
5	Jayant holds 20% equity shares in Z Pvt. Ltd. The company gave a loan of Rs. 1 lakh to Jayant on 1.1.2022 which is outstanding. The company paid regular dividend to its shareholders on 1.6.2022. Jayant was entitled to dividend of Rs. 1.5 lakh. The company paid Rs. 50,000 to Jayant after setting off the loan amount.
6	JKL Pvt. Ltd., in which Jayant holds 12% equity shares, advanced Rs. 5 lakh to him in connection with a job work. This amount was adjusted against the bill raised by Jayant on completion of job work.
7	UVX Pvt. Ltd., in which Jayant holds 15% equity shares, awarded a works contract to him in connection with an export order that the company had won. To complete the work, he was required to purchase and install a machine. The company advanced him Rs. 10 lakh for this purpose.
8	JJ Pvt. Ltd., in which Jayant holds 5% equity shares, advanced a loan of Rs. 5 lakh to a partnership firm in which he was a partner entitled to 25% profit share.
9	Yam Jam Ltd., a listed company, granted a loan of Rs. 10 lakh to Sham Jam Ltd on 1.9.2022. Jayant held 20% equity shares in both the companies. The loan was outstanding till the end of the year. Yam Jam Ltd. had Rs. 8 lakh of accumulated profits as on 1.9.2022.

### Dividend?

1	10 lakh as Jayant holds $\geq 10\%$ equity shares in BCD Pvt. Ltd..
2	15 lakh (to the extent of accumulated profits on date of payment), as Jayant holds $\geq 10\%$ equity shares in JKL Pvt. Ltd. and loan is to a HUF in which Jayant is entitled to $\geq 20\%$ income.
3	15 lakh, as Jayant holds $\geq 10\%$ equity shares in PQR Ltd. (which is a closely held company) and payment is made to Suyash on behalf, or for the individual benefit of Jayant.
4	No, as loan is given in the ordinary course of business and money lending is a substantial part of business of DEF Pvt. Ltd.
5	50,000 (u/s 2(22)(a)) being regular dividend). Amount set off against earlier payment treated as dividend u/s 2(22)(e) is not again treated as dividend.
6	No, as it is a trade advance in the nature of commercial transaction.
7	No, as it is a trade advance in the nature of commercial transaction.

8	No, as Jayant does not hold $\geq 10\%$ equity shares in JJ Pvt. Ltd.
9	No, as Yam Jam Ltd. is not a closely held company since it is a public listed company.

**B10. CA2021(JULY)** – Mr. Mani, holding 20% of the equity share capital in XY Ltd, a manufacturing company in which public is substantially interested, took a loan of Rs. 4,50,000 from it on 10.5.2022. The accumulated profits of the company on that date amounted to Rs. 4,00,000. Examine the taxability of the above transaction in the hands of Mr. Mani.

■ Since XY Ltd. is a company in which the public are substantially interested, i.e., it is not a closely held company, section 2(22)(e) will not apply. Nothing will be taxable as deemed dividend in the hands of Mr. Mani. *Mistake by students – Not aware of provisions.*

**B11. Dividend – CA2016(NOV)** - Rakesh has 15% shareholding in RSL (P) Ltd. and also has 50% share in Rakesh & Sons, a partnership firm. The accumulated profit of RSL (P) Ltd. is Rs. 20 lakh. Rakesh & Sons had taken a loan of Rs. 25 lakh from RSL (P) Ltd. Explain whether the above loan is treated as dividend?

■ Taxable as deemed dividend u/s 2(22)(e) in the hands of Rakesh to the extent of Rs. 20 lakh (being accumulated profits; assuming that this is the figure at the time of payment) as Rakesh holds  $\geq 10\%$  equity shares in RSL (P) Ltd. and loan is to a firm in which he is entitled to  $\geq 20\%$  income.

**B12. Dividend – CA2020(NOV)** – Julie received following amount during PY 2022-23. Received loan of Rs. 5,00,000 from ABC Pvt. Ltd., a closely held company engaged in textile business. She is holding 10% of equity share capital in the said company. The accumulated profit of the company was Rs. 2,00,000 on the date of loan. Discuss the tax implications, if any, arising from these transactions in her hand with reference to AY 2023-24.

■ Taxable as deemed dividend u/s 2(22)(e) to the extent of 2 lakh (being the accumulated profits on the date of payment) as Julie holds  $\geq 10\%$  equity shares in ABC Pvt. Ltd., a closely held company.

**B13. Dividend** – Compute the income taxable under the head IFOS in the hands of Mr. Swindle for the AY 2023-24 from the following particulars if he is a (a) ROR, (b) RNOR or (c) NR.

1	Dividend received in India from J Ltd., a domestic company, on 1.10.2022, after paying remuneration of Rs. 5,000 to the bank for realizing the dividend	95,000
2	Dividend received outside India from B Ltd., an Indian company, on 15.5.2022.	1,00,000
3	Dividend received in India from C Ltd., a foreign company, on 15.5.2022.	1,20,000
4	Dividend received outside India from D Ltd., a foreign company, on 15.5.2022, and later remitted to India.	80,000
5	Dividend received outside India from Z Ltd., a foreign company, on 15.6.2022.	50,000

■ *Computation of income taxable under the head IFOS in the hands of Mr. Swindle for the AY 2023-24*

#	Remarks	ROR	RNOR	NR
1	Dividend income accrues/arises in India. It is taxable in all cases. Remuneration paid to bank is not deductible.	1,00,000	1,00,000	1,00,000
2	Dividend paid by an Indian company outside India is deemed to accrue or arise in India u/s 9(1)(iv). It is taxable in all cases.	1,00,000	1,00,000	1,00,000
3	Taxable in all cases as it is received in India.	1,20,000	1,20,000	1,20,000
4	Taxable in case of ROR on global taxation basis. Subsequent remittance to India does not amount to receipt in India.	80,000	-	-
5	Taxable in case of ROR on global taxation basis.	50,000	-	-
	<b>Income from other sources</b>	<b>4,50,000</b>	<b>3,20,000</b>	<b>3,20,000</b>

#### Money or property received without or for inadequate consideration

**B14-21e. 56(2)(x)** – Determine whether the following will be taxable in the hands of recipient u/s 56(2)(x).

#	Particulars
1	Jay HUF received Rs. 1,35,000 as gift in cash from Meena. Meena is the younger daughter of the friend of Jay. Jay is the Karta of the HUF.
2	Prakash HUF received a house property as gift from Rini, the daughter of Prakash. Rini is the member of Prakash HUF of which Prakash is the Karta. SDV of the house is Rs. 15 lakh.
3	Shashwat received the following gifts on his 50 <sup>th</sup> birthday: 1,500 shares of Z Ltd. from his best friend (FMV Rs. 20 per share) and diamond jewellery from elder son of his brother (FMV Rs. 60,000).
4	Rajan HUF gifted a motor cycle (FMV 50,000) to Rajan's son, Raghu, for winning the college sports competition. Rajan is the Karta of HUF.

5	<b>CA2016(MAY)</b> - Mr. Kumar gifted a car to his sister's son, Sunil, for achieving good marks in CA Final exam. The FMV of the car is Rs. 5 lakh.
6	Rs. 60,000 was received by Rajesh from three of his colleagues on the occasion of marriage of his son. Each person gifted Rs. 20,000.
7	Sanjay received Rs. 51,000 as gift from his fiancée living in the US.
8	Sanjay, a director employee of a car manufacturing company, received a Honda City car as gift from a car distributor.
9	Mukesh received Rs. 1,00,000 from a friend in respect of expenditure incurred on medical treatment of his son (employed with a MNC) for health complication arising out of COVID-19 suffered within 6 months of being diagnosed COVID-19 positive.
10	Kalpana received Rs. 15 lakh on the death of her spouse (the sole earning member in the family) due to COVID-19 related complication within 6 months of testing COVID-19 positive. Amount was received from the employer of her spouse after 11 months from the date of death.
11	In #10 above, assume that the amount was received from various friends and colleagues.
12	In #10 above, assume that Kalpana is not dependent on her spouse and the amount was received after 15 months.

#	Taxable	Remarks
1	1,35,000	Meena is not a member of HUF, hence, not a relative.
2	Nil	Rini is member of HUF, hence, relative. However, income from house will be clubbed with her income u/s 64(2) (refer para 184 of Concepts Book)
3	90,000	Friend and nephew are not relatives. Birthday is not an exempted event. Aggregate FMV of 90,000 is taxable as it is > 50,000.
4	Nil	Motor cycle is not a specified movable property u/s 56(2)(x).
5	Nil	Car is not a specified movable property u/s 56(2)(x)
6	60,000	Marriage is not of Rajesh. Aggregate sum is taxable as it is > 50,000.
7	51,000	Fiancée is not a relative. Aggregate sum is taxable as it is > 50,000.
8	Nil	Car is not a specified movable property u/s 56(2)(x). Also, it is not received from employer, hence, not taxable under the head 'Salaries'. It is not a benefit or perquisite arising from business, hence, not taxable under the head PGBP u/s 28(iv).
9	Nil	Receipt is in respect of medical expenditure on COVID-19 related disease and son is member of family (even if not dependent on Mukesh).
10	Nil	Kalpana is member of family of her spouse. Death is due to COVID-19 illness. Amount is exempt without limit as it is received from employer. Death is within 6 months of testing positive and payment is received within 12 months from the date of death.
11	5,00,000	Amount is exempt up to the aggregate of 10 lakh since it is not received from the employer. Balance is taxable.
12	15,00,000	Though Kalpana is still a member of the family (whether or not dependent on the spouse) but exemption is not available as amount is not received within 12 months from the date of death.

**B22-23. 56(2)(x) – CA2018(MAY)** – Discuss the taxability of the following receipts in the hands of Sanjay Kamboj for AY 2023-24:

- Rs. 51,000 received from his sister living in the US, on 1.6.2022.
- Received a car from his friend on payment of Rs. 2,50,000, the FMV of which was Rs. 5,50,000.

Provisions of taxability or non-taxability must be discussed.

■ 1. Sister is a relative. Gift is not taxable u/s 56(2)(x). 2. Car is not a specified movable property u/s 56(2)(x). Hence, not taxable.  
Mistake by students – Not aware that car does fall under the definition of 'property' u/s 56(2)(x).

**B24. 56(2)(x) – CA2011(MAY)** - The following details have been furnished by Hemali pertaining to the year ended 31.3.2023. Compute the income, if any, assessable as IFOS.

#	Particulars
1	Cash gift of Rs. 51,000 received from her friend on the occasion of her 'Shastiaptha Poorthi', a wedding function celebrated on her husband completing 60 years of age. This was also her 25 <sup>th</sup> wedding anniversary.
2	On the above occasion, a diamond necklace worth Rs. 2 lakh was presented by her sister living in Dubai.
3	When she celebrated her daughter's wedding on 21.2.2023, her friend assigned in Hemali's favour, a fixed deposit held by the said friend in a scheduled bank; the value of fixed deposit and the accrued interest on the said date was Rs. 51,000.

#	Amount taxable	Remarks
1	51,000	Occasion is not the marriage of Hemali. Friend is not a relative. Sum is taxable as it is > 50,000.
2	Nil	Sister is a relative
3	51,000	Occasion is not the marriage of Hemali. Friend is not a relative. FD is a sum of money. <sup>1</sup> It is taxable as it is > 50,000.
	1.02.000	

**B25. 56(2)(x)** – From the following transactions relating to Shikha, determine the amount chargeable to tax in her hands for AY 2023-24. Your answer should be supported by reasons.

#	Particulars
1	On 1.1.2023, being her birthday, she received a gift of Rs. 40,000 by means of cheque from her father's maternal uncle.
2	On 12.2.2023, she acquired a vacant site from her friend for Rs. 1,32,000. Stamp duty authority fixed the value of site at Rs. 2,00,000 for stamp duty purposes.
3	Received cash gift of Rs. 2,25,000 from ABC Charitable Trust (registered u/s 12AB) on 12.10.2022 for meeting medical expenses.
4	She bought 50 equity shares of a private company from a friend for Rs. 75,000. FMV of such shares on date of purchase was Rs. 1,33,000.

#	Gift of money	Movable property received for consideration	Immovable property received for consideration	Remarks
1	40,000	-	-	Father's maternal uncle is not a relative and birthday is not an excluded occasion.
2	-	-	68,000	Friend is not a relative. Excess of 68,000 (SDV – Consideration) is > 50,000 and SDV is > 110% of consideration. Excess is taxable
3	Nil	-	-	Received from a trust registered under the Act
4	-	58,000	-	Share is a specified movable property. Friend is not a relative. Excess of 58,000 (FMV – Consideration) is > 50,000. Excess is taxable.
	40,000	58,000	68,000	

*Computation of income under the head IFOS*

Particulars	Rs.
Sum of money received without consideration: Aggregate of 40,000 is not > 50,000	Nil
Movable property received for consideration: Excess of 58,000 is > 50,000. Excess is taxable.	58,000
Immovable property (land or building) received for consideration (per property)	68,000
<b>Income from other sources</b>	<b>1,26,000</b>

**B26. 56(2)(x) – CA2019(NOV)** - Miss Bansuri, a Chinese national, got married to Mr. Keshav of India in Beijing on 3.2.2022 and came to India for the first time on 14.2.2022. She left for China on 11.8.2022. She returned to India again on 20.2.2023. She received the following gifts from her relatives and friends during 1.4.2022 and 31.3.2023 in India:

- From parents of husband Rs. 71,000
- From married sister of husband Rs. 21,000
- From two very close friends of her husband (Rs. 1,41,000 and Rs. 1,21,000) Rs. 2,62,000

Determine her residential status and compute the total income chargeable to tax along with tax payable for AY 2023-24. Will your answer change if she had returned to India again on 20.1.2023 instead of 20.2.2023?

*Determination of residential status for AY 2023-24*

Particulars	A: Returned on 20.2.2023	B: Returned on 20.1.2023
Stay in India in PY 2022-23	1.4.22 to 11.8.22 (133) + 20.2.23 to 31.3.23 (40) = 173 days	1.4.22 to 11.8.22 (133) + 20.1.23 to 31.3.23 (71) = 204 days

<sup>1</sup> 'Sum of money' is not defined u/s 56(2)(x). Two views are possible – FD represents sum of money or FD does not fall within this meaning. The first view is adopted in the answer. Students can also take the alternative view. A suitable note should be given in the answer in either case.



Stay in India in the preceding 4 PYs	PY 2018-19 to 2021-22 (14.2.22 to 31.3.22) = 46 days.	Not relevant
Case A: Stay in India in PY 2022-23 is < 182 days. Further, stay in PY 2022-23 is $\geq$ 60 day but < 365 days in preceding 4 PYs	Status is non-resident	-
Case B: Stay in India in PY 2022-23 $\geq$ 182 days. Hence, she is resident. But she is non-resident in 9 out of 10 preceding PYs and stay in India is $\leq$ 729 days in preceding 7 PYs.	-	Status is RNOR

*Computation of total income and tax payable for AY 2023-24*

Particulars	Case A	Case B
Gift from parents of husband: Not taxable u/s 56(2)(x) since lineal ascendant of spouse is a relative	-	-
Gift from married sister of husband: Not taxable u/s 56(2)(x) since sister of spouse is a relative	-	-
Gift from close friends: Taxable u/s 56(2)(x) since friend of husband is not a relative. Aggregate FMV is taxable as it is > 50,000.	2,62,000	2,62,000
<b>Total income</b>	<b>2,62,000</b>	<b>2,62,000</b>
Tax on total income	600	600
Less: Rebate u/s 87A (not available in case of non-resident)	-	(600)
	600	Nil
Add: HEC @ 4%	24	Nil
Tax liability	624	Nil
<b>Tax liability (rounded off)</b>	<b>620</b>	<b>Nil</b>

**B27. CA2021(JAN)** - Prabhu Dayal Prem Narain HUF purchased a house property in the year 1946 for Rs. 30,000. On 30.9.2022, the HUF was totally partitioned and the aforesaid house property was given to Mr. Prem Narain, a member of the family. Fair market value of the house as on 30.9.2022 was Rs. 18,00,000. Fair market value of the house as on 1.4.2001 was Rs. 2,00,000. What will be the tax implications in the hands of Mr. Prem Narain and the HUF?

■ In the hands of HUF – Capital gain does not arise in the hands of HUF on distribution of capital asset on partition of HUF in view of section 47(i) [see para 136 of Concepts Book].

In the hands of Prem Narain – Income does not arise u/s 56(2)(x) since house property is received on partition of HUF.

**B28. 56(2)(x)** – Rocky is engaged in the business of trading in shares. Following particulars are furnished for PY 2022-23:

1. His friend gifted Rs. 1,25,000 on his marriage anniversary on 10.5.2022.
2. His business colleague gifted bullion on his birthday on 10.6.2022 (FMV on this date Rs. 55,000).
3. His brother's father-in-law gifted a flat to him on the occasion of his wife's birthday on 10.7.2022 (SDV on this date 4,50,000). The flat was acquired by his brother's father-in-law on 10.4.2012 for Rs. 1 lakh. Rocky sold this flat for Rs. 10 lakh on 10.3.2023 (SDV on this date Rs. 12 lakh).
4. He had made booking of an under-construction house on 10.5.2021 for Rs. 10 lakh (SDV on this date Rs. 15 lakh). Booking amount of Rs. 1 lakh was paid by account payee cheque on the said date. The house was transferred in his name on 10.1.2023 (SDV on this date Rs. 16 lakh).
5. His neighbor, Johny, sold 100 shares of BCD Pvt. Ltd. to Rocky on 10.8.2022 for Rs. 1,000 each (FMV Rs. 1,500 each). Subsequently, Rocky sold these shares for Rs. 2,000 each on 10.12.2023, in the ordinary course of his business.

Compute the income of Rocky arising from these transactions for AY 2023-24.

■

*Computation of income under the had IFOS in the hands of Rocky for AY 2023-24*

#	Particulars	Rs.
1	Cash gift is taxable u/s 56(2)(x) since it exceeds 50,000. Friend is not a relative.	1,25,000
2	Bullion, received without consideration, is taxable u/s 56(2)(x) since FMV exceeds 50,000	55,000
3	SDV of flat gifted by brother's father-in-law, received without consideration, is taxable u/s 56(2)(x), since SDV exceeds 50,000. Brother's father-in-law is not a relative.	4,50,000
4	Receipt of shares is not covered u/s 56(2)(x) as it is stock-in-trade for Rocky (not a capital asset). Profit on subsequent sale of shares is taxable under the head PGBP for AY 2023-24.	-
5	House received for consideration: Excess of 5 lakh (SDV of 15 lakh – Consideration of 10 lakh) is > 50,000 and SDV of 15 lakh is > 110% of 10 lakh. Excess is taxable u/s 56(2)(x). SDV on date of agreement is taken since part of consideration is received by specified mode on the date of agreement.	5,00,000
	<b>Income from other source</b>	<b>11,30,000</b>

## Computation of capital gain in the hands of Rocky for AY 2023-24 on sale of flat

Particulars	Rs.
Full value of consideration u/s 50C = SDV, as it is > 110% of 10 lakh	12,00,000
Less: Cost of acquisition u/s 49(4) = Value taken into account u/s 56(2)(x), i.e., SDV (as property was subject to tax u/s 56(2)(x))	(4,50,000)
Short term capital gain (as POH of Rocky is not > 24 months)	7,50,000

**B29. 56(2)(x)** - Yogi is a real estate dealer. On 15.10.2022, he sold a flat (being his stock-in-trade) to Jogi, his friend and a lawyer in practice, for Rs. 50 lakh. Jogi had paid 5% advance by a bearer cheque on 15.9.2022 when the agreement was signed. SDV of the flat was Rs. 74 lakh on 15.9.2022 and Rs. 80 lakh on 15.10.2022. The flat was purchased by Yogi on 15.11.2021 for Rs. 40 lakh. Jogi sold the flat to Manav on 15.3.2023 for Rs. 100 lakh. Manav had paid 5% advance by account payee cheque on 15.2.2023 when the agreement was signed. SDV of the flat was Rs. 90 lakh on 15.2.2023 and Rs. 95 lakh on 15.3.2023. Determine the tax implications of these transactions in the hands of Yogi and Jogi for AY 2023-24. Will your answer change if Yogi is not a real estate dealer?

## Tax implications arising in the hands of Yogi and Jogi for AY 2023-24

Business income in the hands of Yogi on sale of flat to Jogi	Rs.
Full value of consideration u/s 43CA = SDV of 80 lakh, as it is > 110% of consideration of 50 lakh. SDV on date of agreement is not taken since part consideration is received by bearer cheque (not a specified mode) on that date.	80,00,000
Less: Cost of flat	(40,00,000)
Profits and gains of business or profession	40,00,000
Income taxable in the hands of Jogi u/s 56(2)(x) on receipt of flat from Yogi	Rs.
Immovable property is received for a consideration. Excess of 30 lakh (SDV of 80 lakh – Consideration of 50 lakh) is > 50,000 and SDV is > 110% of consideration. Excess is taxable. SDV on date of agreement is not taken since part consideration is paid by bearer cheque (not a specified mode) on that date. Flat is a capital asset in the hands of Jogi even if it is stock-in-trade in the hands of Yogi. Hence, section 56(2)(x) is applicable.	30,00,000
Capital gain in the hands of Jogi on sale of flat to Manav	Rs.
Full value of consideration u/s 50C = Consideration of 100 lakh as SDV of 90 lakh is not > 110% of consideration of 100 lakh. SDV on date of agreement is taken since part consideration is paid by account payee cheque (a specified mode) on that date.	1,00,00,000
Less: Cost of acquisition u/s 49(4) = Value taken into account u/s 56(2)(x), i.e., SDV (as property was subject to tax u/s 56(2)(x))	(80,00,000)
Short term capital gain (since POH of Jogi does not exceed 24 months)	20,00,000

If Yogi is not a real estate dealer, the flat will be a capital asset in his hands and capital gain will arise on sale of flat to Jogi instead of business income. Short term capital gain will arise as POH in his hands does not exceed 24 months. Computation will remain the same as above and short-term capital gain will be Rs. 40,00,000. There will no change in taxability in the hands of Jogi.

**B30. 56(2)(x) – CA2015(MAY)** - Mohini transferred a house to her friend, Ragini, for Rs. 35,00,000 on 1.10.2022. The sub registrar valued the land at Rs. 48,00,000. Mohini contested the valuation and the matter was referred to Division Revenue Officer, who valued the house at Rs. 41,00,000. Accepting the said value, differential stamp duty was paid and transfer was completed.

Total income of Mohini and Ragini for AY 2023-24, before considering the transfer of said house are Rs. 2,80,000 and Rs. 3,45,000, respectively. Mohini had purchased the house on 15.5.2014 for Rs. 25,00,000 and registration expenses were Rs. 1,50,000.

Explain provisions of Income-tax Act applicable to present case and also determine the total income of both Mohini and Ragini, taking into account the above transactions.

## Computation of total income of Mohini and Ragini for AY 2023-24

Particulars	Rs.	Rs.
<b>Computation of total income of Mohini</b>		
Long term capital gain on transfer of house to Ragini (as POH is > 24 months):		
Full value of consideration u/s 50C = SDV, as it is > 110% of consideration. DRO value taken as it is ≤ SDV.	41,00,000	
Less: ICOA = COA × (CII of 2022-23/CII of 2014-15) = 26.50 lakh (25 lakh + 1.5 lakh) × (331/240)	(36,54,792)	4,45,208
Other income		2,80,000
Total income		7,25,208
<b>Computation of total income of Ragini</b>		
Income from other sources: on receipt of house from Ragini: Excess of 6 lakh (SDV of 41 lakh – Consideration of 35 lakh) is > 50,000 and SDV of 41 lakh is > 110% of 35 lakh. Thus, excess of 6 lakh is		6,00,000

taxable u/s 56(2)(x).		
Other income		3,45,000
Total income		9,45,000

**B31. 56(2)(x) – CA2010(MAY)** – Raj Kumar sold a house to his friend Dhruv on 1.9.2022 for a consideration of Rs. 25,00,000. The sub-registrar refused to register the document for the said value as according to him stamp duty had to be paid on Rs. 45,00,000, which was the Government guideline value. Raj Kumar preferred an appeal to the Revenue Divisional Officer, who fixed the value of the house as Rs. 32,00,000 (Rs. 22,00,000 for land; balance for building portion). The differential stamp duty was paid, accepting the said value determined. Assuming that the fair market value is Rs. 32,00,000, what are the tax implications in the hands of Raj Kumar and Dhruv for AY 2023-24? Raj Kumar had purchased the land on 1.6.2015 for Rs. 5,19,000 and completed the construction of house on 1.10.2020 for Rs. 14,00,000.

Capital gain in the hands of Raj Kumar for AY 2023-24

Particulars	Rs.	Rs.
Long term capital gain on sale of land (since POH exceeds 24 months):		
Full value of consideration u/s 50C = Value fixed by Revenue Divisional Officer	22,00,000	
Less: ICOA = COA × (CII of 2022-23/CII of 2015-16) = 5,19,000 × (331/254)	(6,76,335)	
		15,23,665
Short term capital gain on sale of building (since POH does not exceed 24 months):		
Full value of consideration u/s 50C = Value fixed by Revenue Divisional Officer	10,00,000	
Less: COA	(14,00,000)	
		(4,00,000)
Capital gains (long-term): Short term capital loss can be set off against long term capital gain u/s 70 (see para 189 of Concepts Book)		11,23,665

Income from Other Sources in the hands of Dhruv for AY 2023-24

Immovable property is received for a consideration. Excess of 7 lakh (SDV of 32 lakh – Consideration of 25 lakh) is > 50,000 and SDV of 32 lakh is > 110% of 25 lakh. Thus, excess of 7 lakh is taxable u/s 56(2)(x).

**B32. 56(2)(x) – CA2018(NOV)** – Subramani sold a house plot to Vimala for Rs. 45 lakh on 12.5.2022. The valuation determined by the stamp valuation authority was Rs. 53 lakh. Discuss the tax consequences in the hands of Subramani and Vimala.

Vimala sold this plot to Padmaja on 21.3.2023 for Rs. 55 lakh. The valuation as per stamp valuation authority remains the same at Rs. 53 lakh. Compute the capital gains arising on sale of the house plot by Vimala.

Note: None of the parties, viz., Subramani, Vimala and Padmaja are related to each other. The transactions are between outsiders.

Tax consequences in the hands of Subramani

Capital gain will arise in the hands of Subramani. SDV of Rs. 53 lakh will be deemed to be the full value of consideration u/s 50C as SDV is > 110% of consideration of Rs. 45 lakh.

Tax implications in the hands of Vimala

Income will arise u/s 56(2)(x) under the head IFOS upon receipt of house plot: Excess of 8 lakh (SDV of 53 lakh – Consideration of 45 lakh) is > 50,000 and SDV of 53 lakh is > 110% of 45 lakh. Thus, excess of 8 lakh will be taxable u/s 56(2)(x). Further, short term capital gain will arise on sale of house plot to Padmaja (since POH does not exceed 24 months):

Particulars	Rs.
Full value of consideration u/s 50C = Consideration since SDV is not > 110% of consideration	55,00,000
Less: Cost of acquisition u/s 49(4) = Value taken into account u/s 56(2)(x), i.e., SDV (as property was subject to tax u/s 56(2)(x))	(53,00,000)
Short term capital gain	2,00,000

**B32a. 56(2)(x), 2(22)(c) – CA2022(MAY)** - Mr. Lalit, a dealer in shares and securities, has entered into following transactions during the previous year 2022-23:

- Received a motor car of Rs. 5,00,000 as gift from his friend Sunil on the occasion of his marriage anniversary.
- Cash gift of Rs. 21,000 each from his four friends.
- Land at Jaipur on 1.7.2022 as a gift from his friend Kabra, the stamp duty value of the land is Rs. 6 lakhs as on the date. The land was acquired by Mr. Kabra in the previous year 2001-02 for Rs. 2 lakhs.

Mr. Lalit purchased from his friend Mr. Abhishek, who is also a dealer in shares, 1,000 shares of ABC Ltd. @ 400 each on 19.6.2022 the fair market value of which was Rs. 600 each on that date. Mr. Lalit sold these shares in the course of his business on 23.6.2022.

Further, on 1.11.2022, Mr. Lalit took possession of his residential house booked by him two years back at Rs. 20 lakh. The stamp duty value of the property as on 1.11.2022 was Rs. 32 lakh and on the date of booking was Rs. 24 lakh. He had paid Rs. 1 lakh by account payee cheque as down payment on the date of booking.

He received a shop (building) of the fair market value Rs. 1,50,000 and cash Rs. 50,000 in distribution from the ABC (P) Ltd at the time of liquidation process of the company in proportion of his share capital. The balance in general reserve of the company attributable to his share capital is Rs. 1,25,000.

On 1.3.2023, he sold the plot of land at Jaipur for Rs. 8 lakh.

Compute the income of Mr. Lalit chargeable under the head "Income from other sources" and "Capital Gains" for AY 2023-24.

*Computation of income under the head IFOS for AY 2023-24*

Particulars	Rs.
Movable property received without consideration: Motor car received from friend: It is not a specified property u/s 56(2)(x). Hence, not taxable.	-
Sum of money received without consideration: Cash gift from friends: Aggregate value is taxable u/s 56(2)(x) as it is > 50,000	84,000
Immovable property received without consideration: Land at Jaipur gifted by friend: SDV is taxable u/s 56(2)(x) as it is > 50,000	6,00,000
Movable property received for consideration: Shares purchased from Mr. Abhishek: It is not taxable u/s 56(2)(x) as shares are not capital asset of Mr. Lalit but stock-in-trade, since he is a dealer in shares and securities and it is mentioned that he subsequently sold the shares in the course of his business.	-
Immovable property received for consideration: Residential house: It is taxable u/s 56(2)(x) as excess of 4 lakh (i.e., SDV 24 lakh – consideration 20 lakh) is > 50,000 and SDV of 24 lakh is > 110% of 20 lakh. Excess is taxable. SDV on date of booking is taken (instead of SDV on date of registration) as part consideration is paid on that date by a specified mode.	4,00,000
Distribution on liquidation of ABC (P) Ltd., is treated as dividend u/s 2(22)(c) to the extent of accumulated profits. <sup>2</sup>	1,25,000
	<b>12,09,000</b>

*Computation of income under the head Capital Gain for AY 2023-24*

Particulars	Rs.	Rs.
Sale of shares purchased from Mr. Abhishek and sold in the course of business: Not capital gain. It is business income taxable under the head PGBP.		-
Sale of land at Jaipur:		
Full value of consideration	8,00,000	
Less: Cost of acquisition u/s 49(4) = Value taken into account u/s 56(2)(x), i.e., SDV (as property was subject to tax u/s 56(2)(x))	(6,00,000)	
STCG (as POH of Mr. Lalit is not > 24 month; POH of previous owner is not to be considered)		2,00,000
		<b>2,00,000</b>

Capital gain also arises upon receipt of shop (building) and cash in distribution from ABC (P) Ltd at the time of liquidation. FVC for this purpose = 2,00,000 (money and market value of assets distributed) — 1,25,000 (deemed dividend u/s 2(22)(c)) = 75,000. Capital gain is not computed in absence of information about cost of acquisition of shares in the question.

**INTEREST**

**B33. Interest** – Determine the income taxable under the head IFOS in the hands of Swamy, a resident and ordinarily resident, for AY 2022-23, from the following particulars:

1. Interest on tax-free 8% GOI bonds	10,000
2. Interest on 9% debentures of XYZ Ltd (net of TDS @ 10%)	18,000
3. Interest on RBI Relief Bonds	5,000
4. Interest on 7% Capital Investment Bonds	7,000
5. Interest on loan given to a business colleague	6,000
6. Commission paid to Suman for realizing interest from XYZ Ltd.	4,000
7. Interest on fixed deposits with Kotak Mahindra Bank	15,000
8. Interest on PPF	20,000
9. Interest on Post Office Savings Bank Account (individual account)	6,000
10. Interest on loan given to Mrs. Zed, a non-resident, for use in her business carried on in India	10,000

<sup>2</sup> As per an alternative view, if the shares are held for trading purposes, dividend income would be taxable under the head PGBP.

■ *Computation of income taxable under the head IFOS for AY 2023-24*

Particulars	Rs.
Interest on tax-free 8% GOI bonds (exempt)	-
Interest on 9% debentures of XYZ Ltd (net of TDS @ 10%): Gross of TDS = 18,000 × (100/90) = 20,000. Less commission of Rs. 4,000 for realizing such interest (assuming it is reasonable).	16,000
Interest on RBI Relief Bonds (exempt u/s 10(15))	-
Interest on 7% Capital Investment Bonds (exempt u/s 10(15))	-
Interest on loan given to a business colleague	6,000
Interest on fixed deposits with Kotak Mahindra Bank	15,000
Interest on PPF (exempt u/s 10(11))	-
Interest on Post Office Savings Bank Account (individual account) (exempt up to 3,500)	2,500
Interest on loan given to Mrs. Zed, a non-resident for use in her business carried on in India: It is deemed to accrue or arise in India u/s 9(1)(v) as interest is payable by a non-resident for loan used in her business carried on in India. Even otherwise, it is taxable on global basis as Swamy is a ROR. It is also taxable on receipt basis assuming it is received in India.	10,000
<b>Income under the head IFOS</b>	<b>49,500</b>

**B34. Interest on compensation – CA2011(NOV)** - On 10.10.2022, Govind (a bank employee) received Rs. 5,00,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during FY 2016-17. Out of this interest, Rs. 1,50,000 relates to FY 2017-18, Rs. 1,65,000 to the FY 2018-19 and Rs. 1,85,000 to FY 2019-20. He incurred Rs. 50,000 by way of legal expenses to receive the interest on such enhanced compensation. How much of interest on enhanced compensation would be taxable for AY 2023-24?

■ *Computation of interest on enhanced compensation taxable for AY 2023-24*

Particulars	Rs.
Interest on enhanced compensation taxable u/s 56(2)(viii) in the year of receipt	5,00,000
Less: Deduction u/s 57(iv) of 50%	(2,50,000)
Taxable interest on enhanced compensation	2,50,000

**B35. Interest on compensation – CA2020(NOV)** - Julie received following amount during PY 2022-23. Received interest on enhanced compensation of Rs. 5,00,000. Out of this interest, Rs. 1,50,000 relates to PY 2019-20, Rs. 1,90,000 relates to PY 2020-21 and Rs. 1,60,000 relates to PY 2021-22. She paid Rs. 1 lakh to her advocate for his efforts in the matter. Discuss the tax implications, if any, arising from these transactions in her hand with reference to AY 2023-24.

■ Interest received of Rs. 5,00,000 less deduction of 50%, i.e., Rs. 2,50,000, is taxable under the head IFOS in the year of receipt, i.e., PY 2022-23. No other deduction is allowable.

### SHARE PREMIUM

**B36. Share premium – CA2019(NOV)** - MLX Investments (P) Ltd. was incorporated during PY 2020-21 having a paid-up capital of Rs. 10 lakh. In order to increase its capital, the company further issued 1,00,000 shares (having face value of Rs. 100 each) during the year at par as on 1.8.2022. FMV of such share as on this date was Rs. 85.

- Determine the tax implications of the above transaction in the hands of the company, assuming it is the only transaction made during the year.
- Will your answer change if shares were issued at Rs. 105 each?
- What will be your answer if shares were issued at Rs. 105 and FMV was Rs. 120 on 1.8.2022?

■ 1: Section 56(2)(viib) will not apply as the consideration (issue price) does not exceed the face value.  
 2: Section 56(2)(viib) will apply as the consideration (issue price) exceeds the face value. Income taxable under the head IFOS in the hands of the company will be 20 lakh @ 20 per share (105 consideration – 85 FMV).  
 3: Section 56(2)(viib) will apply as the consideration (issue price) exceeds the face value. However, no income will be taxable since the consideration (issue price) does not exceed the FMV.  
 It is assumed that consideration is received from resident.

**B37. Share premium – CA2016(MAY)** – ABC Pvt. Ltd., a closely held company, issued 10,000 shares at Rs. 130 per share. The face value of the share is Rs. 100 per share and the fair market value of the share is Rs. 120 per share. Discuss the taxability or otherwise in the hands of recipient.

■ Section 56(2)(viib) will apply as the consideration (issue price) exceeds the face value. Income taxable under the head IFOS in the hands of the company will be @ 10 per share (130 consideration – 120 FMV), i.e., Rs. 1,00,000.

### COMPUTATION OF TAX LIABILITY

**B38-40. Tax liability** – Compute the total income and tax liability for AY 2023-24 in the following cases for Shikha. She has not opted for section 115BAC.

Particulars	Case I	Case II	Case III
Dividend	3,50,000	3,50,000	3,50,000
Winning from gambling	60,000	60,000	60,000
Long term capital gain on sale of gold	-	30,000	30,000
Long term capital gain on sale of equity shares (STT paid on sale/purchase)	-	1,50,000	1,50,000
Deposit in PPF account	1,50,000	1,50,000	1,50,000
Residential status	Resident	Resident	Non-resident
Age	35	55	65

#### Computation of total income and tax liability for AY 2023-24

Computation of total income	Case I	Case II	Case III
Income from other sources:			
• Dividend	3,50,000	3,50,000	3,50,000
• Winning from gambling	60,000	60,000	60,000
Capital gain:			
• LTCG on sale of gold u/s 112	-	30,000	30,000
• LTCG on sale of equity shares u/s 112A	-	1,50,000	1,50,000
Gross total income	4,10,000	5,90,000	5,90,000
Less: Deduction u/s 80C (on deposit in PPF) (not allowed from income taxable at special rates, i.e., winning, LTCG u/s 112, LTCG u/s 112A)	(1,50,000)	(1,50,000)	(1,50,000)
Total income	2,60,000	4,40,000	4,40,000
<b>Incomes included in total income</b>			
Winning taxable u/s 115BB	60,000	60,000	60,000
LTCG u/s 112	-	30,000	30,000
LTCG u/s 112A	-	1,50,000	1,50,000
Other income	2,00,000	2,00,000	2,00,000
<b>Computation of tax liability</b>			
On winning u/s 115BB @ 30% (benefit of unexhausted BEL is not available in case of winnings)	18,000	18,000	18,000
On LTCG u/s 112 @ 20%: Unexhausted BEL = 50,000 (2,50,000 BEL – 2,00,000 other income). Unexhausted BEL of 30,000 is adjusted against LTCG u/s 112.	-	Nil	-
On LTCG u/s 112 @ 20%: Benefit of unexhausted BEL is not available to non-resident	-	-	6,000
On LTCG u/s 112A @ 10% in excess of 1 lakh: Balance unexhausted BEL of 20,000 is adjusted. Taxable LTCG = 1,50,000 – 20,000 UBEL = 1,30,000. Tax = 10% of 30,000.	-	3,000	-
On LTCG u/s 112A @ 10% in excess of 1 lakh: Benefit of unexhausted BEL is not available to non-resident.	-	-	5,000
On other income at normal rates	Nil	Nil	Nil
<b>Tax on total income</b>	<b>18,000</b>	<b>21,000</b>	<b>29,000</b>
Less: Rebate u/s 87A (not available from tax u/s 112A or to a non-resident)	(12,500)	(12,500)	-
	5,500	8,500	29,000
Add: Surcharge: Not applicable as total income is not > 50 lakh	-	-	-
	5,500	8,500	29,000
Add: HEC@ 4%	220	340	1,160
<b>Tax liability</b>	<b>5,720</b>	<b>8,840</b>	<b>30,160</b>

**COMPREHENSIVE**

**B41-52. Comprehensive** – Examine under which head of income would the following incomes be taxable in the hands of Rakesh for AY 2023-24:

#	Income
1	He is a builder. He let out certain flats held for sale for a period of 9 months and derived rental income of Rs. 10 lakh.
2	He is a Member of Parliament. He received salary of Rs. 10,000 per month in this capacity.
3	He is a partner in R&S Co., partnership firm. He received interest on capital and salary from the firm. This was allowed as deduction in the hands of the firm.
4	He let out plant and machinery belonging to him and derived rental income of Rs. 1,50,000. He is not in the business of letting out plant and machinery.
5	He received gift of Rs. 60,000 from his friend on the occasion of his birthday.
6	Upon retirement, he received lump sum payment from unrecognized provident fund. Rs. 7 lakh was his own contribution and Rs. 2 lakh was interest thereon.
7	He won a prize of Rs. 3 lakh from State Government lottery
8	He was engaged in the business of giving motor cars on hire. Rental income for the year was Rs. 10 lakh.
9	<b>CA2016(NOV)</b> - He received a sum of Rs. 5 lakh as compensation from 'Yatra Foundation' towards the loss of property on account of flood disaster at Chennai during December 2022.
10	<b>CA2016(MAY/NOV)</b> - He received an advance of Rs. 3 lakh on 6.6.2022 to transfer his residential house property. Since the transfer was not effected during the PY due to failure in negotiations, he deducted the advance money forfeited from the cost of acquisition of the property.
11	He received family pension of Rs. 5,000 p.m. from the employer of his late father.
12	He was awarded Rs. 21,000 by the local trader's association for his outstanding social service

#	Head	Remarks
1	IHP	-
2	IFOS	Taxable under the head IFOS since not received from an employer
3	PGBP	Taxable u/s 28(v) under the head PGBP
4	IFOS	It is not taxable under the head PGBP as letting is not his business.
5	IFOS	Specifically taxable under the head IFOS.
6	IFOS	Own contribution is exempt, interest thereon of 2 lakh is taxable under the head IFOS.
7	IFOS	Winning from lottery is specifically taxable under the head IFOS.
8	PGBP	Income is from business.
9	IFOS	It is not exempt u/s 10(10BC) (para 30 of Concepts Book) as it is not received from the Government or local authority.
10	IFOS	As advance is forfeited on or after 1.4.2014, it is not deductible from COA. It is taxable under the head IFOS.
11	IFOS	Amount taxable will be 60,000 – deduction of 15,000 (lower of 1/3 <sup>rd</sup> of 60,000 or 15,000) = 45,000
12	IFOS	Award is not exempt u/s 10(17A) as it is not instituted or approved by the Government.

**B53. Comprehensive – CA2009(NOV)** - From the following particulars of Pankaj for the PY 2022-23, compute the income under the head IFOS:

1.	Director's fee from a company	10,000
2.	Interest on bank deposits	3,000
3.	Income from undisclosed source	12,000
4.	Winnings from lotteries (net of TDS @ 30%)	35,000
5.	Royalty on a book written by him	9,000
6.	Lectures in seminars	5,000
7.	Interest on loan given to relative	7,000
8.	Interest on debentures of a company (listed on BSE) net of TDS @ 10%	4,500
9.	Interest on Post Office Savings Bank Account (individual)	2,500
10.	Interest on Government securities	2,200
11.	Interest on Monthly Income Scheme of Post Office	33,000

He paid Rs. 1,000 for typing the manuscript of book written by him.

## Computation of income of Pankaj chargeable under the head IFOS for AY 2023-24

Particulars	Rs.	Rs.
Director's fee from a company		10,000
Interest on bank deposits		3,000
Income from undisclosed source		12,000
Winnings from lotteries (net of TDS @ 30%). Gross winning = $35,000 \times (100/70)$		50,000
Royalty on a book written by him (assuming it is not taxable under the head PGBP)	9,000	
Less: Expenses for typing of manuscript	(1,000)	8,000
Lectures in seminars		5,000
Interest on loan given to relative		7,000
Interest on debentures of a company net of TDS @ 10%. Gross interest = $4,500 \times (100/90)$		5,000
Interest on POSA (exempt up to Rs. 3,500 in case of individual account)		Nil
Interest on Government securities		2,200
Interest on Monthly Income Scheme of Post Office		33,000
<b>Income under the head IFOS</b>		<b>1,35,200</b>

**B54. Comprehensive – MASTER QUESTION** - Compute the tax liability of Badal, a resident aged 35 years and carrying retail business of electronic goods, for the PY 2022-23 from the following particulars. He has not opted for section 115BAC and follows mercantile system of accounting.

1. Received the following from Z Ltd., an Indian company, in which he held 1,000 equity shares:
  - a. Bonus shares in the ratio of 1:1. FMV of bonus shares on the date of allotment, i.e., 1.6.2022, was Rs. 500 per share. Total value of bonus shares issued by Z Ltd. was Rs. 10 crore whereas its accumulated profit on 1.6.2022 was Rs. 15 crore.
  - b. On the same date, Z Ltd. distributed debentures of total market value Rs. 20 crore to its shareholders out of which Badal received debentures worth Rs. 2 lakh.
  - c. On 1.1.2023, Z Ltd. paid Rs. 1,00,000 to Badal on account of buy back of equity shares.
2. Badal held 12% of equity shares in BD Pvt. Ltd. which made the following payments during the year:
  - a. During the year, he received an advance of Rs. 75,000 against a service contract, which was later adjusted on issue of invoice for work done by him.
  - b. BD Pvt. Ltd. declared dividend on 15.4.2022. Badal was entitled to dividend of Rs. 50,000 which was set off against loan advanced by the company to him on 1.7.2021 which was outstanding and was taxed as dividend u/s 2(22)(e) last year. Consequently, nothing was paid to Badal.
  - c. BD Pvt. Ltd. gave a loan of Rs. 5,00,000 on 1.8.2022 to Badal & Bijli, a partnership firm, in which Badal was entitled to 25% profit share. The loan was given at market rate of interest and was repaid by the firm on 1.3.2023.
  - d. On the same date, i.e., 1.8.2022, BD Pvt. Ltd. advanced Rs. 1,00,000 to Megha, his friend, who in turn, handed over the money to Badal for his use. The company had accumulated profit of Rs. 4,00,000 on 1.8.2022.
3. Received Rs. 10,000 as dividend from CNK Ltd., an Indian company, on 15.4.2022. During the year, Badal also received dividend of Rs. 30,000 from a US company on 15.7.2022. He had taken a loan to invest in the US company on which he paid interest of Rs. 5,000 during the PY. He also paid Rs. 5,000 to the banker for realizing this dividend.
4. Badal also received Rs. 2,00,000 as loan from JBL Pvt. Ltd. at market rate of interest. JBL Pvt. Ltd. was engaged wholly in money lending business. He held 15% shares in the company.
5. During the PY, Badal received the following sums of money and properties:
  - a. Rs. 30,000 from his friends on the occasion of his marriage.
  - b. Rs. 40,000 from his fiancée on his birthday prior to his marriage.
  - c. Rs. 20,000 from Badal & Bijli, the partnership firm in which he is a partner.
  - d. Jewellery of market value Rs. 55,000 inherited post demise of his parent.
  - e. Precious work of art of market value Rs. 2,00,000 received on partition of HUF of which Badal was a member.
  - f. Gold coins gifted by an unregistered trust. Fair market value Rs. 50,000.
  - g. Shares of JKL Pvt. Ltd. of market value Rs. 1,50,000 received from elder son of his brother. Badal paid Rs. 50,000 towards the shares. The shares were further sold by Badal on 15.2.2023 for Rs. 1,00,000 to his friend when the fair market value of the shares was Rs. 2,50,000.
  - h. Stock of television sets for his retail business purchased from the wholesaler at a negotiated price of Rs. 5,00,000 (market value Rs. 7,50,000).



- i. Honda Civic car purchased for Rs. 50,000 on 15.7.2022 from a friend who is a car dealer, on the occasion of marriage of Badal's sister. Market value of the car on this date was Rs. 10 lakh.
- j. Plot of land in Jodhpur of market value Rs. 5,00,000 gifted by his grandfather's cousin sister on 1.9.2022. SDV on this date Rs. 4,00,000.
- k. Residential house purchased from neighbor for Rs. 10,00,000 on 1.12.2022 (SDV on this date 12,50,000). Badal made 10% down payment by RTGS on the date of agreement of 1.10.2022 on which date the SDV was Rs. 12,00,000. Badal sold the house for Rs. 20,00,000 on 15.3.2023 on which date the SDV was Rs. 21,00,000. Expenditure on transfer amounted to Rs. 50,000.

6. During the year, Badal received the following as interest:

a. Interest on debentures of Jabra Ltd (net of TDS @ 10%)	Rs. 54,000
b. Interest of Government of India Bonds	Rs. 20,000
c. Interest on loan given to an acquaintance (without TDS)	Rs. 90,000
d. Interest on fixed deposits with bank (net of TDS @ 10%)	Rs. 67,500
e. Interest on Post Office Saving Account (individual account)	Rs. 3,000
f. Interest credited to PPF Account	Rs. 60,000
g. Interest on Post Office Monthly Income Scheme	Rs. 8,000

He made payment of Rs. 9,000 in cash on 20.7.2022 for realizing interest from the acquaintance.

A property owned by Badal was compulsorily acquired by the Government on 10.9.2020. He disputed the compensation and went in appeal. He finally received the original compensation of Rs. 10,00,000 and enhanced compensation of Rs. 2,00,000 on 10.1.2022. Interest on delayed compensation of Rs. 2,00,000 was, however, received on 15.11.2022. He incurred litigation expenses of Rs. 20,000 for realizing the interest on compensation.

7. He was issued 10,000 shares of Benz Pvt. Ltd. on 15.12.2022 of face value of Rs. 10 each, for Rs. 500 per share. Fair market value of shares on 15.12.2022 was Rs. 300 per share.
8. Income from units held in various plans of Birla Sunlife Mutual Fund was Rs. 30,000.
9. Badal participated in the ABC television show where he won a prize money of Rs. 3,20,000 which was paid to him after deducting TDS @ 30%. He incurred Rs. 50,000 towards travel, conveyance and other expenses in connection with participating in the show.
10. He had let out a shop, owned by him, to Rahul, along with a Xerox machine. The rent for shop was Rs. 10,000 p.m. while it was Rs. 3,000 per month for the machine. He paid insurance premium of Rs. 2,000 for the machine and Rs. 3,000 for the shop. Depreciation for the machine for the PY 2022-23 was computed at Rs. 5,000 u/s 32 of the Act. Municipal value of the shop is Rs. 9,000 p.m. Badal paid municipal taxes for the shop at the rate of 10% on 20.3.2023.
11. He had entered into an agreement to sell a plot of land, owned by him, during June 2022 and had received a down payment of Rs. 3,00,000. The sale could not materialize on account of failed negotiations and as per the terms of the agreement, Badal forfeited the down payment on 15.7.2022.
12. He entered into a contract with Modern Books Pvt. Ltd. for authoring a book and received Rs. 5,00,000 as royalty. He incurred expenses of Rs. 3,00,000 towards development of the manuscript (out of which Rs. 10,000 pertained for stationery purchased for his children and Rs. 2,00,000 was shown as payment to spouse for proof-reading). The proof-reading charges in the market for similar work were Rs. 50,000. In addition, he paid Rs. 1,50,000 to Jack on 15.3.2023 as fee for professional services in this connection which was liable to TDS u/s 194J. This amount was paid after deducting tax at source. The tax was, however, paid on 15.1.2024. Due date to file return of income for AY 2023-24 was 31.10.2023.
13. He had taken a Keyman insurance policy on the life of his key employee working in his retail business. The employee died during the year and Badal received Rs. 2,00,000 from the insurance company on 15.3.2023.
14. During the year, he received family pension of Rs. 5,000 p.m. from the employer of his late father.
15. Consequent to a search by the Income Tax authorities, he was found to possess gold jewellery of the value of Rs. 3,00,000 which had not been disclosed by him. He could not explain the source to the tax authorities.
16. He received an award of Rs. 25,000 from Swachh Foundation, a private NGO, for leading the Swachh Bharat campaign in his locality.
17. He received Rs. 80,000 as director's fee from Ramon Pvt. Ltd. in which he was a director. He incurred Rs. 20,000 for performing his duties as the director.
18. His income chargeable to tax under the head PGBP (excluding any income chargeable under the above referred particulars) was Rs. 5 lakh.
19. He deposited Rs. 1,50,000 in his PPF account during the year.



## Computation of total income of Badal for AY 2023-24

Particulars	Rs.	Rs.
<b>Income from other sources:</b>		
Income from Z Ltd.		
• Bonus shares to equity shareholder: Not treated as dividend u/s 2(22)(a)	-	
• Distribution of debentures: Treated as dividend u/s 2(22)(b) to the extent of accumulated profits on the date of distribution = 2 lakh × (15 crore accumulated profit / 20 crore distribution)	1,50,000	
• Buy-back of shares: Buyback by a domestic company is exempt u/s 10(34A) and also not treated as dividend u/s 2(22)(d) in the hands of shareholder	-	
		1,50,000
Income from BD Pvt. Ltd. in which Badal holds ≥ 10% equity shares		
• Advance against service contract: Trade advance in nature of commercial transaction is not treated as dividend u/s 2(22)(e)	-	
• Dividend: Not taxable since set off against amount already treated as dividend u/s 2(22)(e)	-	
• Loan to the firm in which Badal is entitled to ≥ 20% income is treated as dividend u/s 2(22)(e) to the extent of accumulated profits on the date of payment of 1.8.2022.	4,00,000	
• Loan to friend: It is dividend u/s 2(22)(e) but not taxable since there are no accumulated profits on 1.8.2022, remaining after giving of loan to the firm as referred above.	-	
		4,00,000
Dividend from CNK Ltd.		10,000
Dividend from US company: Amount taxable = 30,000 – interest of 5,000. Interest expense, up to 20% of dividend income included in the total income before such deduction, is allowed as deduction. Payment to banker for realizing dividend is not deductible.		25,000
Loan from JBL Pvt Ltd: Not treated as dividend u/s 2(22)(e) since loan is made in the ordinary course of business of money lending in which the company is wholly engaged.		-
Sum of money received without consideration:		
• From friends on the occasion of his marriage: Not taxable as received on marriage.	-	
• From fiancée on his birthday: Taxable as fiancée is not a relative.	40,000	
• From partnership firm in which he is a partner: Taxable	20,000	
Aggregate value of sums is taxable u/s 56(2)(x) since it exceeds 50,000		60,000
Movable property received without consideration:		
• Jewellery inherited from parent: Not taxable as received by way of inheritance.	-	
• Work of art received on partition of HUF: Not taxable as received on partition of HUF.		
• Gold coins from unregistered trust: Taxable	50,000	
Aggregate FMV does not exceed 50,000. Nothing taxable u/s 56(2)(x).		-
Movable property received for consideration:		
• Unquoted shares from elder son of brother: Taxable (FMV – consideration)	1,00,000	
• Stock of television sets: Not taxable since not a capital asset of Badal	-	
• Honda Civic car: Not taxable since car is not a specified movable asset	-	
Excess of 1,00,000 (i.e., Aggregate FMV 1,50,000 – Consideration 50,000) is taxable u/s 56(2)(x) since it exceeds 50,000		1,00,000
Immovable property received without consideration: Plot of land gifted by grandfather's cousin sister: SDV is taxable u/s 56(2)(x) since it exceeds 50,000		4,00,000
Immovable property received for consideration: Excess of 2 lakh (i.e., SDV 12 lakh – Consideration 10 lakh) is > 50,000 and SDV is > 110% of consideration. Hence, excess is taxable u/s 56(2)(x). SDV on date of agreement is taken as part payment is made by a specified mode on this date.		2,00,000
Interest income:		
• On debentures of Jabra Ltd: Gross up for TDS: 54,000 × (100/90)	60,000	
• On GOI bonds	20,000	
• On loan to acquaintance: 90,000 – 9,000 expenses in cash for realizing interest (not disallowed u/s 40A(3) payment in cash to a person in a day does not exceed 10,000)	81,000	
• On FD with bank: Gross up for TDS: 67,500 × (100/90)	75,000	

• On POSA: Exempt up to 3,500 for individual account u/s 10(15)	-	
• On PPF: Exempt u/s 10(11)	-	
• On Post Office MIS	8,000	
• On compensation: Taxable on receipt basis = 2 lakh — 50% deduction. No other deduction is allowed.	1,00,000	
		3,44,000
Shares of Benz Pvt. Ltd., a closely held company, issued for price more than face value. Issue price 500 – FMV 300, i.e., 200 per shares for 10,000 shares is taxable in the hands of Benz Pvt. Ltd. u/s 56(2)(viib), not in the hands of Badal.		-
Income from units of Mutual Fund		30,000
Winning from ABC show: Gross winning is taxable. No deduction is allowed.		3,20,000
Letting of shop with machine: Since both lettings are separable, income from letting of machine is taxable under the head IFOS and income from letting of shop is taxable under the head IHP. Taxable amount for letting of machine = Rent 36,000 – Insurance premium 2,000 – Depreciation 5,000.		29,000
Advance forfeited: Taxable u/s 56(2)(ix) as it is forfeited on or after 1.4.2014		3,00,000
Royalty: Taxable under the head IFOS, since it is not business income	5,00,000	
• Less: Manuscript development expenses = 3,00,000 – 10,000 personal expenses disallowed – 1,50,000 excess payment to spouse disallowed u/s 40A(2)	(1,40,000)	
• Less: Professional fee to Jack = 1,50,000 – 45,000 (30% disallowed u/s 40(a)(ia) since tax is deducted in the PY but paid after the due date to furnish return of the PY)	(1,05,000)	
		2,55,000
Family pension: Taxable amount = 60,000 – 15,000 deduction (lower of 1/3 <sup>rd</sup> of pension or 15,000)		45,000
Undisclosed income u/s 69B: Taxable		3,00,000
Award from Swachh foundation: Taxable		25,000
Director's fee: 80,000 – 20,000 expenses		60,000
		<b>30,53,000</b>
<b>Profits and gains of business or profession</b>		
Receipt from Keyman insurance policy: Taxable u/s 28(vi)	2,00,000	
Other business income	5,00,000	
		7,00,000
<b>Capital gains</b>		
Short term capital gain on sale of shares of JKL Pvt. Ltd. (Note 1)	1,00,000	
Short term capital gain on sale of house (Note 2)	7,50,000	
		8,50,000
<b>Income from house property</b>		
Rent from shop (Note 3)		76,440
<b>Gross total income</b>		<b>46,79,440</b>
Less: Deduction u/s 80C (investment in PPF)		(1,50,000)
<b>Total income</b>		<b>45,29,440</b>

*Computation of tax liability of Badal for AY 2023-24*

Particulars	Rs.	Rs.
<b>Composition of total income:</b>		
Income taxable u/s 115BB (winnings)		3,20,000
Income taxable u/s 115BBE (undisclosed income)		3,00,000
Other income		39,09,440
		45,29,440
<b>Computation of tax:</b>		
Tax u/s 115BBE @ 60% of 3,00,000	1,80,000	
Add: Surcharge @ 25%	45,000	2,25,000
Tax u/s 115BB @ 30% of 3,20,000	96,000	
Tax on other income of 39,09,440 at regular rates	9,85,332	10,81,332

	13,06,332
Add: HEC @ 4%	52,253
Tax liability	13,58,585
<b>Tax liability (rounded off)</b>	<b>13,58,590</b>

Note 1: Capital gain on sale of shares of JKL Pvt. Ltd.

Particulars	Rs.
Full value of consideration u/s 50CA = FMV, since consideration is < FMV	2,50,000
Less: Cost of acquisition u/s 49(4) = Value taken into account u/s 56(2)(x), i.e., FMV (as property was subject to tax u/s 56(2)(x))	(1,50,000)
Short term capital gain (since POH is not > 24 months)	1,00,000

Note 2: Capital gain on sale of house

Particulars	Rs.
Full value of consideration u/s 50C = Consideration, since SDV is not > 110% of consideration	20,00,000
Less: Expenditure on transfer	(50,000)
Net consideration	19,50,000
Less: Cost of acquisition u/s 49(4) = Value taken into account u/s 56(2)(x), i.e., SDV (as property was subject to tax u/s 56(2)(x))	(12,00,000)
Short term capital gain (since POH is not > 24 months)	7,50,000

Note 3: Income from house property – Rent from shop

Particulars	Rs.
Gross annual value = Higher of expected rent 1,08,000 (@ 9,000 p.m.) or actual rent 1,20,000 (@ 10,000 p.m.)	1,20,000
Less: Municipal taxes paid during the PY by Badal @ 10% of 1,08,000	(10,800)
Net annual value	1,09,200
Less: Standard deduction of 30%	(32,760)
Income from house property	76,440

## MCQ

### CHARGEABILITY

**M1.** Income is taxable under the head IFOS if it is not exempt or it is not chargeable under any other head of income.

- (a) True (b) False

**M2.** Income under the head IFOS is computed in accordance with:

- (a) Cash system of accounting regularly employed by the assessee. (b) Mercantile system of accounting regularly employed by the assessee.  
 (c) Cash or mercantile system of accounting regularly employed by the assessee. (d) Cash or mercantile system of accounting which can be applied for different streams of income

**M3.** Which of the following is not a condition for expenditure to be allowed as general deduction u/s 57?

- (a) It should not be personal in nature (b) It should be incurred during the previous year  
 (c) It should be incurred wholly and exclusively for earning the income (d) It can be either capital or revenue in nature

**M4.** If Rs. 45,000 is paid to Ramu as interest on fixed deposits, after deducting tax at source at 10%, what amount should be included in the income of Ramu?

- (a) 45,000 (b) 50,000  
 (c) 55,000 (d) 40,500

### DIVIDEND

**M5.** Which of the following is treated as dividend?

- (a) Issue of bonus shares to equity shareholders (b) Issue of bonus shares to preference shareholders

- (c) Buyback of shares (d) Distribution of assets to shareholders in excess of accumulated profits

**M6.** Which of these is not treated as dividend in any case?

- (a) Distribution of debentures to shareholders (b) Distribution to shareholders on liquidation  
(c) Distribution not entailing any release of assets (d) Dividend set off against payment treated earlier as dividend u/s 2(22)(e)

**M7.** Charmis Pvt. Ltd., having reserves of Rs. 10 lakh and capitalized profits of Rs. 5 lakh (on account of issue of bonus shares) on 1.7.2022, distributed deposit certificates (carrying interest) of Rs. 18 lakh on this date to its equity shareholders. Market value of certificates on this date was Rs. 20 lakh. Amount treated as dividend in the hands of Raju, holding 10% equity shares, would be:

- (a) 1,00,000 (b) 50,000  
(c) 1,50,000 (d) 2,50,000

**M8.** TexMax Ltd. distributed deposit certificates (without interest) to its equity and preference shareholders on 15.12.2022. Accumulated profits as on this date was Rs. 50 lakh. Mr. J, holding 10% equity shares, received deposit certificates of the value of Rs. 10 lakh. Amount of dividend taxable in the hands of Mr J would be:

- (a) 5 lakh (b) 10 lakh  
(c) Exempt (d) 5 lakh is taxable but deductible from GTI

**M9.** Shure Ltd., an Indian company, paid Rs. 500 per share on buy back of its shares on 1.9.2022 and deposited buy back tax u/s 115QA with the Government. Amount treated as dividend in the hands of Surjit, holding 1,000 shares (acquired 6 months back @ Rs. 300 per share), would be:

- (a) Nil (b) 5,00,000  
(c) 5,00,000 less buyback tax (d) 2,00,000

**M10.** Advance or loan is not treated as dividend in which of the following cases?

- (a) From a private company to the holder of at least 10% equity shares (b) From a public unlisted company to the holder of at least 10% equity shares  
(c) From a private company to the holder of at least 10% preference shares (entitled to fixed rate of dividend) (d) From a closely held company to the holder of at least 10% equity shares

**M11.** Trade advances in the nature of commercial transactions do not fall u/s 2(22)(e).

- (a) True (b) False

**M12.** Grant of loan is treated as deemed dividend in which of the following cases?

- (a) Loan given by Z (P) Ltd to B holding 5% equity shares (b) Loan given by Z (P) Ltd to B (P) Ltd. B holds 15% equity shares in both companies  
(c) Loan given by Z (P) Ltd to C which B uses for his benefit. B and C hold 11% and 1% equity shares in the company, respectively. (d) Loan given by Z (P) Ltd to BJ HUF. B holds 30% equity shares in Z (P) Ltd and is entitled to 15% income of HUF

**M13.** Loan or advance given to an equity shareholder is not treated as dividend if:

- (a) Interest is charged at market rate (b) Loan is repaid during the year in which it is given  
(c) It is in the nature of trade advance (d) Loan is given on the basis of collateral security

**M14.** Zara Pvt. Ltd, extended a loan of Rs. 10 lakh on 12.12.2022 to B&C, a partnership firm, in which B is entitled to a 20% profit share. On the same date, it also advanced Rs. 2 lakh to B for completing a job work for the company which was billed to the company on completion of the work. B holds 15% equity shares and 5% preference shares in Zara Pvt. Ltd. Zara Pvt. Ltd. is mainly engaged in software business but 5% of its income also comes from money lending business. Accumulated profits of the company on 1.4.2022 and 12.12.2022 were Rs. 7 lakh and Rs. 9 lakh, respectively. Amount of dividend taxable in the hands of B for AY 2023-24 would be:

- (a) 9,00,000 (b) 10,00,000  
(c) 12,00,000 (d) 7,00,000

**M15.** Sara (P) Ltd gave loan of Rs. 5 lakh to C on 1.1.2022 at 12% rate of interest. C holds 40% equity shares in the company. C repaid Rs. 2 lakh on 15.3.2022. Sara (P) Ltd declared dividend on 15.6.2022 and paid Rs. 1 lakh to C, after adjusting the outstanding loan of Rs. 3 lakh. Amount taxable as dividend in the hands of C for AY 2023-24 would be:

- (a) 1 lakh (b) 4 lakh  
(c) 3 lakh (d) 5 lakh

**M16.** Shivani, a shareholder in Bluesky Ltd, received dividend from the company on 15.4.2022. Which of the following expenses incurred by her will be deducted in computing dividend income?

- (a) Commission paid to banker for realizing the dividend (b) Interest on money borrowed to invest in shares (to the

- (c) Interest on money borrowed to invest in shares (up to 20% of dividend income included in total income, before such deduction) (d) No expenditure is deductible full extent)

**M16a.** Mr. D, a lawyer aged 50 years, has the following particulars of income and expenses for PY 2022-23: Gross receipts from profession of Rs. 30,00,000; interest on fixed deposits with Canara Bank of Rs. 30,000, dividend from various companies of Rs. 1,00,000; professional expenses of Rs. 18,00,000 and interest on loan taken to acquire shares in companies (from which dividend income is earned) of Rs. 25,000. Mr. D is not willing to comply with tax audit provisions u/s 44AB. Compute his total income for AY 2023-24.

- (a) 13,10,000 (b) 16,30,000  
(c) 16,10,000 (d) 16,05,000

**M17.** Dividend income received during PY 2022-23 is:

- (a) Taxable in the hands of shareholder (b) Taxable in the hands of company  
(c) Taxable in the hands of shareholder only if dividend exceeds Rs. 10 lakh (d) Taxable in the hands of shareholder only if it is deemed dividend u/s 2(22)(e)

**M18.** Priyansh, a non-resident, received the following dividend during the PY 2022-23: Rs. 50,000 from Facebook Inc on 1.6.2022 (credited in his bank account in India), Rs. 30,000 from Daisy (P) Ltd, an Indian company, on 1.1.2023 (credited in his bank account in US), Rs. 40,000 from Lazy Ltd, a foreign company, on 5.4.2022 (credited in his bank account in France). Amount taxable in his hands for AY 2023-24 is:

- (a) 90,000 (b) 1,20,000  
(c) 50,000 (d) 80,000

**M19.** For AY 2023-24, dividend is taxable in the hands of the shareholder, at what rate?

- (a) 30% tax rate + Up to 15% SC + 4% HEC (b) Regular tax rate + 15% SC + 4% HEC  
(c) Regular tax rate + Up to 15% SC + 4% HEC (d) Regular tax rate + Up to 15% SC

**M20.** Ranbir, a resident of age 36 years, has the following incomes for AY 2023-24: Dividend of Rs. 20 lakh, short-term capital gain from sale of building Rs. 90 lakh, long term capital gain from sale of equity shares (STT paid on purchase and sale) Rs. 31 lakh. Ranbir has not opted for section 115BAC. Tax payable will be:

- (a) 39,03,900 (b) 40,93,310  
(c) 44,36,250 (d) 40,81,350

**M21.** Ranbir, a resident of age 66 years, has the following incomes for AY 2023-24: Dividend of Rs. 20 lakh, short-term capital gain from sale of building Rs. 300 lakh, long term capital gain from sale of equity shares (STT paid on purchase and sale) Rs. 31 lakh. Ranbir has not opted for section 115BAC. Surcharge payable will be:

- (a) 25% (b) 15% on dividend and LTCG; 25% on STCG  
(c) 15% (d) 15% on dividend, 25% on LTCG and STCG

**M22.** Shikhar Ltd. goes into liquidation and distributes assets to its shareholders. What will be the tax treatment?

- (a) Capital gain for company (b) Capital gain for company; dividend for shareholders  
(c) No capital gain for company; dividend and capital gain for shareholders (d) Dividend for shareholders

**M23.** Joy (P) Ltd goes into liquidation on 1.5.2022 on which date its accumulated profits are Rs. 10 lakh. It distributes assets of Rs. 35 lakh to its shareholders (market value Rs. 40 lakh) and cash of Rs. 5 lakh. Tax implications in the hands of Reyansh, holding 20% shares in the company (purchased 3 months back for Rs. 5 lakh), would be:

- (a) Dividend of 2 lakh; STCG 1 lakh (b) Dividend of 2 lakh; STCG of 2 lakh  
(c) Dividend of 2 lakh; STCG of 4 lakh (d) Dividend Nil; STCG of 4 lakh

#### MONEY OR PROPERTY RECEIVED WITHOUT OR FOR INADEQUATE CONSIDERATION

**M24.** Which of the following properties are covered u/s 56(2)(x)?

- (a) Residential house (b) Furniture  
(c) Air conditioner (d) Motor car

**M25.** Which of the following properties is not covered u/s 56(2)(x)?

- (a) Urban land used for business (b) Commercial building used for business  
(c) Jewellery made from precious stones (d) Raw material for business

**M26.** If jewellery is acquired for inadequate consideration and excess of FMV over consideration is more than Rs. 50,000, the excess exceeding Rs. 50,000 is taxable.

- (a) True (b) False
- M27.** If a painting is gifted and its FMV exceeds Rs. 50,000, the amount in excess of Rs. 50,000 is taxable.  
(a) True (b) False
- M28.** If Rs. 40,000 is gifted by a friend on two occasions during the PY, nothing is taxable.  
(a) True (b) False
- M29.** If gold jewellery is purchased for Rs. 10,000, on two occasions during the PY, when the market value on both occasions is Rs. 40,000, nothing is taxable.  
(a) True (b) False
- M30.** If a house is sold to the assessee by a friend for Rs. 5,00,000 when the market value is Rs. 6,00,000 and stamp duty value is Rs. 7,00,000, Rs. 1,00,000 is taxable u/s 56(2)(x) in the hands of the assessee.  
(a) True (b) False
- M31.** Where property, the receipt of which was subject to tax u/s 56(2)(x), is subsequently sold, capital gain is calculated by deducting what amount from the consideration:  
(a) SDV or FMV taken into account u/s 56(2)(x) (b) Taxable income u/s 56(2)(x)  
(c) Excess of SDV or FMV, taken into account u/s 56(2)(x), over Rs. 50,000 (d) Excess of SDV or FMV, taken into account u/s 56(2)(x), over consideration paid at that time
- M32.** Raghav received the following during the PY 2022-23: Gift of Rs. 50,000 from a neighbor, gift of a watch of market value Rs. 50,000 from fiancée and jewellery for Rs. 5,000 (market value Rs. 55,000) from a friend. Amount taxable in his hands will be:  
(a) Nil (b) 50,000  
(c) 1,00,000 (d) 1,50,000
- M33.** Ryan HUF, comprising Ryan, his wife and his son as members, received the following during the PY 2022-23: Gift of Rs. 60,000 from Ryan's wife, gold coins of market value Rs. 1,00,000 for Rs. 40,000 from an unregistered trust, gift of motor car of market value Rs. 60,000 from friend of Ryan's wife and gift of plot of land of market value Rs. 5 lakh (SDV Rs. 4 lakh) from Ryan's brother. Amount taxable in the hands of HUF will be:  
(a) 5,20,000 (b) 5,80,000  
(c) 5,00,000 (d) 4,60,000
- M34.** Samar received the following during the PY 2022-23: Gift on birthday of Rs. 20,000 from father, Rs. 20,000 from elder brother and Rs. 20,000 from office colleagues; loose diamonds for Rs. 10,000 (market value Rs. 40,000) from elder sister's son; painting for Rs. 20,000 (market value Rs. 50,000) from HUF of which Samar is a member; purchase of raw material for Rs. 50,000 (market value Rs. 1,00,000) for his business; furniture (market value Rs. 60,000) gifted by girlfriend. Amount taxable in his hands would be:  
(a) 1,20,000 (b) 1,10,000  
(c) 60,000 (d) 1,80,000
- M35.** Mr. Kishore celebrated his 50<sup>th</sup> marriage anniversary. On this occasion, his wife received a diamond necklace worth Rs. 5,00,000 from Kishore's brother. Kishore's son gifted him a luxurious car worth Rs. 15,00,000. His grandchildren gifted them a new furniture set worth Rs. 3,00,000. Also, he received cash gifts from his friends amounting collectively to Rs. 80,000. Which of the following statements is correct?  
(a) Neither of them will be liable to pay tax for any gift (b) Both will jointly share the tax liability on all the gifts  
(c) Mrs. Kishore will be taxable on diamond set and Mr. Kishore will be taxable on cash gift (d) Mr. Kishore will be taxable on cash gift only
- M36.** Shaily received the following during the PY 2022-23: Gift of plot of land from erstwhile business customer on occasion of her son's marriage (market value Rs. 10 lakh, SDV Rs. 7 lakh); gift of house from a firm, in which she is a partner, on her wedding anniversary (market value Rs. 15 lakh, SDV Rs. 20 lakh); gift of shop from her HUF on its partition (market value Rs. 20 lakh, SDV Rs. 15 lakh); flat through the will of her friend (market value Rs. 25 lakh, SDV Rs. 30 lakh). Amount taxable in her hands would be:  
(a) 42 lakh (b) 25 lakh  
(c) 57 lakh (d) 27 lakh
- M37.** Vihaan sold 1,000 equity shares of J (P) Ltd to his friend Suhaan on the occasion of marriage of Suhaan, for Rs. 100 each on 1.7.2022 when its market value was Rs. 500 per share. Suhaan sold these shares to Zubin for Rs. 200 each on 1.1.2023 when the market value was Rs. 600 per share. Amount taxable in the hands of Suhaan for AY 2023-24 would be:  
(a) 5 lakh STCG (b) 4 lakh IFOS; 1 lakh STCG  
(c) 4 lakh IFOS; 5 lakh STCG (d) 1 lakh IFOS; 4 lakh STCG
- M38.** Zeeshan purchased a residential house from a private company, in which he was a shareholder, for Rs. 10 lakh on 15.10.2022 when its market value was Rs. 30 lakh and SDV was Rs. 35 lakh. The agreement to sell was entered into one month before on which

date Zeeshan had paid 5% consideration by bearer cheque and the SDV then was Rs. 32 lakh. Zeeshan later sold this flat on 20.3.2023 for Rs. 50 lakh. Amount taxable in the hands of Zeeshan for AY 2023-24 will be:

- (a) IFOS 22 lakh; STCG 18 lakh (b) IFOS 25 lakh; STCG 15 lakh  
(c) IFOS 25 lakh; STCG 25 lakh (d) IFOS 20 lakh; STCG 30 lakh

**M39.** Mr. B, a member of his father's HUF, transferred a house property to the HUF without consideration. The value of house is Rs. 20 lakh as per the registrar of stamp duty. Amount taxable as IFOS would be:

- (a) 20 lakh in the hands of Mr. B (b) 20 lakh in the hands of HUF  
(c) Nil in the hands of Mr. B (d) Nil in the hands of HUF

**M40.** Jeev received a plot of vacant land from his grandfather as gift on his birthday on 15.6.2022 when its FMV was Rs. 50 lakh and SDV was Rs. 55 lakh. He sold the land on 1.3.2023 for Rs. 65 lakh (when SDV was Rs. 63 lakh). His grandfather had purchased the land on 1.5.2021 for Rs. 30 lakh. Amount taxable in the hands of Jeev for AY 2023-24 will be:

- (a) IFOS 55 lakh; STCG 10 lakh (b) IFOS Nil; STCG 10 lakh  
(c) IFOS Nil; STCG 35 lakh (d) IFOS 50 lakh; STCG 35 lakh

**M41.** Divyansh acquired a house from his friend as gift on the occasion of Deepawali on 10.11.2022 when its SDV was Rs. 60 lakh and FMV was Rs. 65 lakh. His friend had purchased the house for Rs. 40 lakh on 10.11.2019. Divyansh sold the house on 12.2.2023 for Rs. 70 lakh (SDV on this date was Rs. 75 lakh). Amount taxable in the hands of Divyansh for AY 2023-24 would be:

- (a) IFOS 60 lakh; STCG 10 lakh (b) IFOS 60 lakh; LTCG 25.74 lakh  
(c) IFOS 60 lakh; LTCG 30.74 lakh (d) IFOS 65 lakh; STCG 10 lakh

**M42.** DLG (P) Ltd., a real estate dealer, sold a flat to D, its director, on 15.4.2022 for Rs. 10 lakh when its SDV was Rs. 30 lakh. Cost of construction of flat was Rs. 20 lakh. D sold the flat to G for Rs. 35 lakh on 15.9.2022 when its SDV was Rs. 45 lakh. Upon reference to the valuation officer on a claim made by D, value of flat was determined at Rs. 40 lakh. Amount taxable in the hands of the company and D for AY 2023-24 would be:

- (a) Company: PGBP of (-) 10 lakh; D: IFOS of 20 lakh, STCG of 10 lakh (b) Company: PGBP of 10 lakh; D: IFOS of 20 lakh, STCG of 9 lakh  
(c) Company: PGBP of 10 lakh; D: IFOS of 20 lakh, STCG of 30 lakh (d) Company: PGBP of 10 lakh; D: IFOS of 20 lakh, STCG of 10 lakh

**M42a.** Mr. B sold 1,000 shares of PQR Pvt. Ltd. to JKL Pvt. Ltd. for Rs. 2,00,000 on 15.12.2022 (FMV on this date Rs. 3,00,000). The shares were purchased by Mr. B on 1.6.2019 and the indexed cost of acquisition is computed at Rs. 1,00,000. Compute the income taxable in the hands of Mr. B and JKL Pvt. Ltd. arising from this transaction.

- (a) 2 lakh LTCG for Mr. B; Nil for JKL Pvt. Ltd. (b) 2 lakh LTCG for Mr. B; 1 lakh IFOS for JKL Pvt. Ltd.  
(c) 1 lakh LTCG for Mr. B; Nil for JKL Pvt. Ltd. (d) 1 lakh LTCG for Mr. B; 1 lakh IFOS for JKL Pvt. Ltd.

### INTEREST

**M43.** Interest income from money lending business is taxable under the head IFOS.

- (a) True (b) False

**M44.** Suyash received the following interest during the PY 2022-23: Interest on PPF of Rs. 1,00,000, interest on GOI Bonds of Rs. 25,000, interest on bank fixed deposits of Rs. 30,000, interest on delayed compensation for compulsory acquisition of house property by the Government of Rs. 2,00,000 (25% pertained to FY 2022-23). Interest taxable for AY 2023-24 is:

- (a) 3,70,000 (b) 1,05,000  
(c) 2,55,000 (d) 1,55,000

**M45.** Which of the following interest incomes is fully exempt?

- (a) Interest on loan given to friend (b) Interest on post office saving account  
(c) Interest on debentures of a company (d) Interest on RBI Relief Bonds

**M46.** Darshit earned the following interest during the PY 2022-23: Interest on debentures Rs. 45,000 (net of TDS @ 10%), interest on loan given to friend Rs. 10,000, interest on individual saving account with Post Office Rs. 5,000, interest on saving bank account with ICICI Bank Rs. 5,000 and interest on Gold Deposit Bonds issued under the Gold Deposit Scheme, 1999 Rs. 7,500. He incurred Rs. 1,000 as commission for realizing the interest from friend. Interest taxable under the head IFOS for the PY 2022-23 would be:

- (a) 60,500 (b) 69,000  
(c) 65,500 (d) 73,000

**M47.** Divya received interest on compensation of Rs. 3,00,000 on 1.7.2022 for compulsory acquisition of a plot of land by the State Government on 1.6.2020. Out of this 80% interest pertained to the FY 2021-22. She incurred Rs. 50,000 as litigation expenses and Rs. 5,000 as administrative charges towards realizing the interest. Amount taxable in her hands for AY 2023-24 would be:

- (a) 1,50,000 (b) 30,000  
(c) 2,45,000 (d) 5,000



### SHARE PREMIUM

**M48.** Share premium is taxable u/s 56(2)(viib) if:

- |   |   |
|---|---|
| (a) Issue price is more than face value                       | (b) Issue price is more than fair market value                          |
| (c) Issue price is more than face value and fair market value | (d) Issue price is more than face value and less than fair market value |

**M49.** Share premium is taxable u/s 56(2)(viib) in the hands of the shareholder.

- |          |           |
|----------|-----------|
| (a) True | (b) False |
|----------|-----------|

**M50.** Grand (P) Ltd issued 1,000 equity shares of face value Rs. 10 each to Darshit for Rs. 200 each on 12.1.2023. On this date, the fair market value of a share, determined under rule 11UA, was Rs. 150. The company tried to substantiate the value of share to be Rs. 190 before the AO but could not succeed. Amount taxable in the hands of the company would be:

- |              |              |
|--------------|--------------|
| (a) 1,40,000 | (b) 50,000   |
| (c) 10,000   | (d) 1,90,000 |

**M51.** GC (P) Ltd issued 1,000 equity shares of face value Rs. 10 each to David for Rs. 200 each on 12.1.2023. FMV was determined under Rule 11UA at Rs. 190. The company substantiated the FMV of share at Rs. 225 to the satisfaction of the AO. Amount taxable in the hands of the company would be:

- |            |            |
|------------|------------|
| (a) 10,000 | (b) 25,000 |
| (c) Nil    | (d) 35,000 |

**M52.** DM Ltd, not being a company in which the public are substantially interested, issued 1,000 equity shares of face value Rs. 100 to Dhiman, a non-resident, for Rs. 150 each on 12.2.2023. FMV of shares as per Rule 11UA was Rs. 80 while the company was able to substantiate it before the AO at Rs. 90. Amount taxable in the hands of the company u/s 56(2)(viib) would be:

- |            |            |
|------------|------------|
| (a) 70,000 | (b) 60,000 |
| (c) 50,000 | (d) Nil    |

### OTHER INCOMES TAXABLE AS IFOS

**M53.** General deduction of any revenue expenditure incurred wholly and exclusively in earning the income is allowed in computing income in which of the following cases?

- |                                   |                        |
|-----------------------------------|------------------------|
| (a) Interest on compensation      | (b) Dividend           |
| (c) Royalty from authoring a book | (d) Winning from games |

**M54.** Standard deduction at a fixed rate is allowed on which of the following incomes?

- |                              |                          |
|------------------------------|--------------------------|
| (a) Family pension           | (b) Excess share premium |
| (c) Interest on compensation | (d) Both a and c         |

**M55.** Which of the following incomes is taxable on gross basis, i.e., without allowing any deduction under the Act?

- |                                    |                        |
|------------------------------------|------------------------|
| (a) Winning from lottery and games | (b) Undisclosed income |
| (c) Dividend                       | (d) Both a and b       |

**M56.** Which of these incomes is not taxable at the regular rate of tax?

- |   |   |
|---|---|
| (a) Income from units of Mutual Fund                                      | (b) Family pension                              |
| (c) Advance forfeited on failed negotiation for transfer of capital asset | (d) Winning from lottery, games and horse races |

**M57.** Which of these incomes is not always taxable under the head IFOS?

- |                              |  |
|------------------------------|--|
| (a) Interest on compensation | (b) Interest on securities             |
| (c) Excess share premium     | (d) Gift of specified movable property |

**M58.** Which of these incomes is always taxable under the head IFOS?

- |  |  |
|--|--|
| (a) Winning from lottery                                 | (b) Sum received under Keyman insurance policy |
| (c) Income from letting of machinery, plant or furniture | (d) Royalty income                             |

**M59.** Which of this is not true for lottery income?

- |   |  |
|---|--|
| (a) Benefit of unexhausted basic exemption limit is not available in computing tax on such income | (b) Deduction under Chapter VIA is not available from such income          |
| (c) Rebate u/s 87A is not available from tax on such income                                       | (d) Deduction of any expenditure is not available in computing such income |

**M60.** Danish, a resident and ordinarily resident, earned the following during PY 2022-23: Dividend of Rs. 10,000 from Hope Ltd, a foreign company; income from units of Mutual Fund Rs. 20,000; gift of wrist watch from Flower (P) Ltd where he was employed on salary (FMV Rs. 50,000); winning from horse race Rs. 35,000 (net of TDS @ 30%; expenses incurred Rs. 10,000); sum received under

Keyman insurance policy assigned to him by Flower (P) Ltd Rs. 2,00,000. Determine income taxable under the head IFOS for AY 2023-24:

- |              |              |
|--------------|--------------|
| (a) 1,30,000 | (b) 55,000   |
| (c) 80,000   | (d) 2,80,000 |

**M61.** Champion, a resident of age 29 years, earned the following during PY 2022-23: Salary (computed) Rs. 1,00,000 (gross of TDS); dividend Rs. 20,000; winning from a game show Rs. 70,000 (net of TDS @ 30%; related expenditure was Rs. 20,000). He deposited Rs. 1,50,000 in his PPF Account. He has not opted for section 115BAC. His tax liability for AY 2023-24 would be:

- |            |            |
|------------|------------|
| (a) 31,200 | (b) 21,840 |
| (c) Nil    | (d) 18,200 |

**M62.** Which of the following is correct?

- |   |   |
|---|---|
| (a) Income from letting of building with services is taxable as IFOS, if not taxable as PGBP  | (b) Income from letting of machinery, plant or furniture is always chargeable as PGBP   |
| (c) Income from letting of building with machinery, plant or furniture, is taxable as IFOS, if not taxable as PGBP, if letting of both is inseparable | (d) Income from letting of building with machinery, plant or furniture, is taxable as IFOS, if not taxable as PGBP, if letting of both is separable |

**M63.** Jayant, staying in a flat at a rent of Rs. 10,000 p.m., sub-let the flat at Rs. 15,000 p.m. He owned a printing machine which he rented out at Rs. 2,000 p.m. w.e.f. 1.10.2022 after incurring repair expenses of Rs. 5,000 in cash. He purchased a motor car for Rs. 4 lakh on 1.6.2021 which he let out to a car driving school for Rs. 10,000 p.m. from the same date. He paid Rs. 7,000 as insurance premium of the car on 1.6.2022 and also claimed depreciation under the Income Tax Act @ 15%. He had no other income during the year. His total income for AY 2023-24 would be:

- |              |              |
|--------------|--------------|
| (a) 2,49,000 | (b) 1,29,000 |
| (c) 1,20,000 | (d) 1,59,000 |

**M64.** Mehul received compensation of Rs. 50 lakh on 12.3.2022 on account of compulsory acquisition of his house by the State Government on 12.5.2021. He received interest on compensation to the tune of Rs. 2,00,000 on 12.5.2022. In a major earthquake, his properties got destroyed for which he received compensation of Rs. 5,00,000 from the Central Government on 12.12.2022. The event was covered as disaster under the Disaster Management Act. Since the death of his father two years back, he was getting Rs. 5,000 p.m. as family pension from his father's employer. His own business income was computed at Rs. 3,00,000 for the previous year. His total income for the AY 2023-24 would be:

- |              |              |
|--------------|--------------|
| (a) 5,45,000 | (b) 9,45,000 |
| (c) 4,40,000 | (d) 4,45,000 |

**M65.** Raunak, a software engineer, earned salary income (computed) of Rs. 3,00,000 during the PY 2022-23. He received the Best Engineer award of Rs. 50,000 from the Indian association of software engineers for his exceptional contribution in this field of work. He owned a vacant plot of land in Rampur which he had rented out at Rs. 10,000 p.m. to a dairy farmer. He incurred expenses of Rs. 30,000 towards upkeep of the land. He was also a director in a public limited company which paid him Rs. 1,20,000 as fee for performing his duties as director. In a search conducted by the tax authorities during the year, he was found to be in possession of gold bars valued at Rs. 10,00,000. However, he could not explain the source of this investment. He deposited Rs. 1,00,000 in his PPF Account on 15.3.2023. His total income for AY 2023-24 would be:

- |               |               |
|---------------|---------------|
| (a) 14,60,000 | (b) 4,60,000  |
| (c) 15,60,000 | (d) 14,90,000 |

**M66.** If, in the hands of Mrs. C, a resident aged 70 years, interest on securities for the PY 2022-23 is Rs. 45,000 (net of TDS @ 10%), pension from employer (computed) is Rs. 2 lakh, undisclosed income u/s 69C is Rs. 1 lakh and investment in PPF Account is Rs. 1 lakh, what will be the total tax liability for AY 2023-24, if Mrs. C has not opted for section 115BAC?

- |            |            |
|------------|------------|
| (a) Nil    | (b) 61,750 |
| (c) 62,400 | (d) 78,000 |

#### SPECIAL PROVISIONS

**M67.** Which of the following expenditure is fully allowed as deduction while computing income under the head IFOS?

- |  |   |
|--|---|
| (a) Payment to father of Rs. 5 lakh for services provided when the market charges are Rs. 1 lakh | (b) Capital expenditure   |
| (c) Purchase of clothes for wife and children  | (d) Payment of Rs. 40,000 to the service provider made by NEFT on a day |

**M68.** Which of the following is fully disallowed as deduction while computing income under the head IFOS?

- (a) Interest paid, after due deduction and payment of tax at source, on loan taken to invest in shares of an Indian company from which dividend income is earned during the year.
- (b) Professional charges paid, after due deduction and payment of tax at source, to a job worker for repairing machinery, from which income is earned by letting.
- (c) Commission of Rs. 20,000 paid in cash to the agent on a single day, for realizing income in the nature of interest on securities
- (d) Payment of Rs. 1 lakh to a firm for content development services in connection with authoring a book where the spouse is a partner with 25% profit share and charges in the market for similar service is Rs. 1.25 lakh.

**M69.** Raja, a Chartered Accountant, authored a book on taxation during the year and earned royalty of Rs. 15 lakh. He claimed the following expenses as deduction: Purchase of books and periodicals for doing research – Rs. 20,000 paid in cash to the bookseller on 1.5.2022. Stationery expenses of Rs. 15,000 (stationery costing Rs. 5,000 was consumed by his children). Salary paid to assistant, working in his office, without deduction of tax which was deductible at source – Rs. 5 lakh. Payment for proof reading made to spouse of Rs. 5 lakh where the market charges are Rs. 1 lakh. 50% of payment for content development services of Rs. 30,000 made last year and deducted in computing royalty income of that year, was refunded during the current year by the service provider on account of deficient services. Compute the income chargeable under the head IFOS for AY 2023-24 where Raja maintains books on mercantile basis.

- (a) 10,35,000 (b) 9,05,000  
(c) 10,70,000 (d) 10,55,000

## Answer Key for MCQs

M1 B; M2 C; M3 D; M4 B; M5 B; M6 D; M7 C; M8 A; M9 A; M10 C; M11 A; M12 C; M13 C; M14 A;  
M15 A; M16 C; M16a C; M17 A; M18 D; M19 C; M20 D; M21 B; M22 C; M23 B; M24 A; M25 D; M26 B;  
M27 B; M28 B; M29 B; M30 B; M31 A; M32 A; M33 D; M34 C; M35 D; M36 D; M37 A; M38 B; M39 D;  
M40 C; M41 A; M42 D; M42a B; M43 B; M44 D; M45 D; M46 C; M47 A; M48 C; M49 B; M50 B; M51 C;  
M52 D; M53 C; M54 D; M55 D; M56 D; M57 B; M58 A; M59 C; M60 C; M61 D; M62 C; M63 B; M64 D;  
M65 A; M66 B; M67 D; M68 C; M69 D

## Hints to MCQ answers

**M1.** Both the conditions should be satisfied.

**M3.** It should not be capital in nature.

**M4.** Amount grossed up for TDS =  $45,000 \times (100/90) = 50,000$

**M7.** Accumulated profits = 15 lakh. Distribution treated as dividend u/s 2(22)(b) to the extent of accumulated profits = 15 lakh. Raju = 10% of 15 lakh.

**M8.** Total value distributed = 100 lakh (as Mr. J holding 10% shares received deposit certificates of value of 10 lakh). Dividend u/s 2(22)(b) to the extent of accumulated profits = 50 lakh. Mr. J = 10% of 50 lakh = 5 lakh.

**M9.** Exempt u/s 10(34A) in the hands of the shareholder.

**M10.** Payment to equity shareholder is covered. Payment to a holder of shares (not being shares entitled to a fixed rate of dividend whether with or without a right to participate in profits) is not covered u/s 2(22)(e).

**M12.** A. B does not hold  $\geq 10\%$  equity shares; B. B does not hold  $\geq 20\%$  shares in B (P) Ltd. C. B holds  $\geq 10\%$  equity shares in Z (P) Ltd. and payment is on behalf of, or for the individual benefit of B. D. B is not entitled to  $\geq 20\%$  income of HUF.

**M14.** Payment covered u/s 2(22)(e) = 10 lakh (as B holds  $\geq 10\%$  equity shares in Zara Pvt. Ltd. and is entitled to  $\geq 20\%$  income of firm) + NO for job work (as it is trade advance in the nature of commercial transaction) = 10 lakh. Dividend to the extent of accumulated profits on 12.12.2022 = 9 lakh. Money lending exception is not available as it is not a substantial part of business of Zara Pvt. Ltd.

**M15.** Dividend set off against previous payment treated as dividend u/s 2(22)(e) is not to be treated again as dividend. Thus, 1 lakh is treated as dividend.

**M16a.** Total income = PGBP 15,00,000 (50% of gross receipts from profession of 30,00,000 u/s 44ADA; since he does not want to comply with 44AB, lower income of 12,00,000 (receipts – professional expenses) cannot be claimed) + FD interest 30,000 + Dividend 1,00,000 – Deduction u/s 57 of 20,000 (interest expense up to 20% of dividend included in the total income before such deduction) = 16,10,000

**M18.** Amount taxable = 50,000 from Facebook as received in India + 30,000 from Daisy as it is paid by Indian company outside India (hence, deemed to accrue/arise in India) + NIL from Lazy as received and accrued outside India = 80,000

**M20.** Dividend & section 112A income = 51,00,000. Other income = 90,00,000. Total income = 1.41 crore. Rate of SC = 15% as total income is > 1 crore but up to 2 crore. /// Tax = On income u/s 112A exceeding 1 lakh @ 10% (3,00,000) + on balance of 1.1 crore (31,12,500) = 34,12,500. // Tax + 15% SC + 4% HEC (on tax and SC) = 40,81,350

- M21.** Dividend & income u/s 112A is 51 lakh. Other income is 3 crore. Hence, SC @ 15% on dividend & 112A income and 25% on other income.
- M23.** Dividend u/s 2(22)(c) (up to accumulated profits) = 20% of 10 lakh = 2 lakh. // STCG (as POH is 3 months): FVC (5 lakh cash + 40 lakh market value of assets distributed – 10 lakh dividend u/s 2(22)(c)) = 35 lakh. 20% thereof is 7 lakh. STCG = 7 lakh FVC – 5 lakh COA = 2 lakh.
- M26.** The excess is taxable
- M27.** FMV is taxable
- M28.** Aggregate of 80,000 is taxable as it is > 50,000.
- M29.** Excess of 60,000 (80,000 FMV – 20,000 consideration) is > 50,000. Excess is taxable.
- M30.** House is received for a consideration. Excess of 2 lakh (SDV of 7 lakh – Consideration of 5 lakh) is > 50,000 and SDV of 7 lakh is > 110% of consideration of 5 lakh. Excess of 2 lakh is taxable.
- M32.** Sum of money received without consideration: Gift from neighbor NIL as it is not > 50,000. // Movable property received without consideration: Watch NIL as it is not a specified property. // Movable property received for consideration: Jewellery NIL as excess (FMV – consideration) is not > 50,000. // Total = NIL.
- M33.** Sum of money received without consideration: Cash gift NIL as received from a relative. // Movable property received for consideration: Gold coins 60,000 (FMV 1,00,000 – consideration 40,000) as it is > 50,000. Motor car is not a specified property. // Immovable property received without consideration: Land: SDV of 4,00,000 as it is > 50,000. // Total = 4,60,000
- M34.** Sum of money received without consideration: From father and elder brother NIL as received from relative + From colleague 20,000 = 20,000 (not taxable as it is not > 50,000). // Movable property received without consideration: Furniture NIL as it is not a specified property. // Movable property received for consideration: Diamond and painting 60,000 (90,000 FMV – 30,000 consideration) + Raw material NIL as it is not a specified property = 60,000 (taxable as it is > 50,000). // Total = 60,000.
- M35.** All are relatives except friends. Also, motor car and furniture are not a specified movable property. Gift from friends of 80,000 is taxable in the hands of Mr. Kishore as it is > 50,000.
- M36.** Immovable property received without consideration: Plot 7,00,000 (SDV is taxable as it is > 50,000) + house 20,00,000 (SDV is taxable as it is > 50,000) + shop NIL as it is received on partition of HUF + flat NIL as it is received under a will = 27,00,000.
- M37.** No income arises u/s 56(2)(x) on receipt of shares on the occasion of marriage of assessee. // STCG per share on sale of shares to Zubin (as POH is not > 24 months) = 600 (FVC u/s 50CA as shares are unquoted) – 100 actual cost = 500 per share. Total STCG = 5,00,000
- M38.** IFOS: Immovable property received for consideration: Excess of 25 lakh (35 lakh SDV – 10 lakh consideration) is > 50,000 and SDV of 35 lakh is > 110% of consideration of 10 lakh. Excess is taxable u/s 56(2)(x) = 25 lakh. SDV on date of agreement is not taken as part payment is made by bearer cheque. /// STCG on sale of house (as POH is not > 24 months) = 50 lakh FVC – 35 lakh SDV u/s 49(4) (value taken into account u/s 56(2)(x)) = 15 lakh.
- M39.** Not taxable in the hands of HUF as received from a relative (member of HUF).
- M40.** IFOS u/s 56(2)(x) is NIL as plot is received from a relative. STCG on sale of plot (as POH of grandfather and Jeev is not > 24 months) = 65 lakh FVC – 30 lakh COA for grandfather = 35 lakh.
- M41.** IFOS u/s 56(2)(x) on receipt of house without consideration = 60 lakh of SDV as it is > 50,000. STCG on sale of house (as POH of Divyansh is not > 24 months) = 70 lakh FVC (SDV not taken as it is not > 110% of consideration) – 60 lakh SDV u/s 49(4) (value taken into account u/s 56(2)(x)) = 10 lakh.
- M42. For DLG (P) Ltd.:** 30 lakh FVC u/s 43CA (SDV taken as it is > 110% of consideration) – 20 lakh cost = 10 lakh under the head PGBP. // **For D:** IFOS u/s 56(2)(x) for immovable property received for consideration = Excess of 20 lakh (30 lakh SDV – 10 lakh consideration), as the excess is > 50,000 and SDV is > 110% of consideration. STCG on sale of flat to G (as POH of D is not > 24 months) = 40 lakh (FVC u/s 50C is valuation of VO as it is ≤ SDV) – 30 lakh (COA u/s 49(4) is the value taken into account u/s 56(2)(x)) = 10 lakh.
- M42a. For Mr. B:** LTCG (as POH of unquoted shares is > 24 months) = 3,00,000 FVC u/s 50CA (as consideration is < FMV) – 1,00,000 ICOA = 2,00,000. // **For JKL Pvt. Ltd.:** IFOS u/s 56(2)(x) on receipt of movable property for consideration = Excess of 1,00,000 (FMV of 3,00,000 – Consideration of 2,00,000). Excess is taxable as it is > 50,000.
- M43.** It is income from business taxable under the head PGBP.
- M44.** Taxable interest = On PPF Exempt + On GOI bonds 25,000 + On bank FD 30,000 + On comp 1,00,000 (2,00,000 on receipt basis – 50% deduction) = 1,55,000
- M46.** Taxable interest = On debentures 50,000 (gross of TDS) + On loan to friend 9,000 (10,000 – 1,000 commission) + On POSA 1,500 (5,000 – 3,500 exempt) + On savings bank a/c with ICICI 5,000 + On Gold Bond Bonds EXEMPT = 65,500
- M47.** Taxable interest = 3 lakh on receipt basis – 50% deduction = 1.5 lakh.
- M49.** It is taxable u/s 56(2)(viib) in the hands of the company.
- M50.** Issue price is > Face value. Income taxable u/s 56(2)(viib) = 200 issue price – 150 FMV = 50 per share.
- M51.** Issue price is > Face value. But income taxable u/s 56(2)(viib) is NIL as issue price of 200 does not exceed FMV of 225 (substantiated to the satisfaction of AO).
- M52.** Nil, as consideration is not received from a resident.
- M60.** Taxable IFOS = Dividend 10,000 + Income from MF units 20,000 + gift from employer is taxable under the head Salaries + Winning grossed up 50,000 (expenses are not deductible) + Receipt under Keyman insurance policy assigned to him is taxable under the head Salaries = 80,000
- M61.** Gross total income = Salary 1,00,000 + Dividend 20,000 + Winning (gross of TDS, without deduction of expenditure) 1,00,000 = 2,20,000. // Total Income = 2,20,000 – 1,20,000 deduction u/s 80C for PPF deposit (not allowed on winnings) = 1,00,000. // Income

comprised in total income is winning of 1,00,000. // Tax on winning = 30,000 (@ 30%) – 12,500 rebate u/s 87A = 17,500. Tax + 4% HEC = 18,200.

**M63.** For sub-letting of flat = 1,80,000 rent received – 1,20,000 rent paid = 60,000. // For letting out of machine = 12,000 (rent for 6 months) – 5,000 repairs = 7,000. // For letting out of car = 1,20,000 rent – 7,000 insurance premium – 51,000 depreciation (15% on WDV of 3,40,000 (4,00,000 actual cost – 60,000 depreciation for PY 2021-22)) = 62,000. // Total = 1,29,000

**M64.** Total income = Interest on compensation 1,00,000 (2,00,000 received – 50% deduction) + Compensation on earthquake exempt u/s 10(10BC) (refer para 30 of Concepts Book) + Family pension 45,000 (60,000 – 15,000 deduction (i.e., lower of 1/3<sup>rd</sup> of 60,000 or 15,000)) + 3,00,000 business income = 4,45,000

**M65.** Total Income = Salary 3,00,000 + Award 50,000 (not exempt u/s 10(17A) as award not instituted or approved by Government) + Rent from land for non-agricultural purpose 90,000 (1,20,000 rent – 30,000 expenses) + Director's fee 1,20,000 + Undisclosed income 10,00,000 – Deduction u/s 80C for PPF deposit 1,00,000 (not allowed from undisclosed income) = 14,60,000

**M66.** Total income = 50,000 interest (gross of TDS) + 2,00,000 pension from employer + 1,00,000 undisclosed income – 1,00,000 deduction u/s 80C for PPF deposit (not allowed from undisclosed income) = 2,50,000. // Total income comprises 1,00,000 undisclosed income and 1,50,000 other income. // Tax u/s 115BBE for undisclosed income @ 60% = 60,000. Benefit of unexhausted basic exemption limit is not available. Tax – 12,500 rebate u/s 87A = 47,500. Tax on balance income = NIL. Tax of 47,500 + 25% SC + 4% HEC (on tax and SC) = 61,750.

**M67.** A: Disallowed u/s 40A(2). B: Capital expenditure is not allowed. C: Personal expenses are not allowed. D: Not disallowed u/s 40A(3) as made to a person in a day by a specified mode.

**M68.** Fully disallowed u/s 40A(3) for Option C.

**M69.** Expenses allowed = Books & Periodicals NIL (disallowed u/s 40A(3) as cash payment to a person in a day is > 10,000) + Stationery 10,000 (15,000 – 5,000 disallowed for personal use) + Salary 3,50,000 (5,00,000 – 30% disallowed u/s 40(a)(ia) as payment made without TDS) + Proof reading 1,00,000 (5,00,000 – 4,00,000 disallowed u/s 40A(2) as excessive payment made to a related party) = 4,60,000. // Total Income = 15,00,000 – 4,60,000 expenses + 15,000 refund taxable u/s 59 read with section 41(1) = 10,55,000



## 10

# Clubbing of Income

## Build Your Confidence (BYC)

### INCOME OF MINOR CHILD

**B1. MINOR CHILD – CA2012(MAY) (modified)** - Mr. Sharma has four children, consisting of two daughters and two sons. The annual incomes of two daughters (one of which is step child) were Rs. 9,000 and Rs. 4,500 and of sons (one of which is adopted child) were Rs. 6,200 and Rs. 4,300, respectively. The daughter who has income of Rs. 4,500 was suffering from a disability specified u/s 80U. Compute the amount of income earned by minor children to be clubbed in the hands of Mr. Sharma.

■ *Computation of amount of income earned by minor children to be clubbed with the income of Mr. Sharma*

Particulars	Rs.
First daughter = 9,000 - 1,500 exempt u/s 10(32)	7,500
Second daughter: Not clubbed since she suffers from a disability specified u/s 80U	-
First son = 6,200 - 1,500 exempt u/s 10(32)	4,700
Second son = 4,300 - 1,500 exempt u/s 10(32)	2,800
Total income to be clubbed u/s 64(1A)	15,000

**B2. MINOR CHILD – Gauri has three minor children – Twin daughters A and B and a son, C. Income of children for PY 2022-23 is Rs. 3,000 for A, Rs. 2,000 for B and Rs. 1,200 for C. Own income of Gauri is Rs. 60,000. Compute total income of Gauri for AY 2023-24.**

■ *Computation of total income of Gauri for AY 2023-24*

Particulars	Rs.
Own income	60,000
Income of A = 3,000 – 1,500 u/s 10(32)	1,500
Income of B = 2,000 – 1,500 u/s 10(32)	500
Income of C = 1,200 – 1,500 u/s 10(32)	Nil
Total income of Gauri	62,000

**B3. MINOR CHILD – CA2018(MAY)** - Madhav made a gift of Rs. 2,50,000 to his handicapped son, Master Tapan, who was aged 12 years, as on 31.3.2021, which he deposited in a fixed deposit account in a nationalized bank at 10% interest p.a. compounded annually. The balance in this account as on 1.4.2022 was Rs. 2,75,000 and the bank credited a sum of Rs. 27,500 as interest on 31.3.2023.

Madhav's father gifted equity shares worth Rs. 50,000 of an Indian company to Master Manan, another son of Madhav (date of birth 10.4.2014) in July 2014 which were purchased by him on 8.12.2007 for Rs. 80,000. Manan received a dividend of Rs. 5,000 on these shares in October 2022. He sold these shares on 1.11.2022 for Rs. 5,00,000 and deposited Rs. 3,00,000 in a company at 15% interest per annum.

Madhav has a taxable income of Rs. 3,50,000 from his profession during FY 2022-23. Compute his gross total income for AY 2023-24.

■ *Computation of gross total income of Madhav for AY 2023-24*

Particulars	Rs.	Rs.	Rs.
Income from profession			3,50,000
Income of minor son Tapan: Interest on fixed deposit: Not clubbed since Tapan is handicapped			

(assuming he is suffering from a disability specified u/s 80U)			
Income of minor son Manan:			
<i>Long term capital gain on sale of shares</i>			
Full value of consideration	5,00,000		
Less: Indexed COA = COA of last previous owner × (CII 2022-23/CII 2007-08) = 80,000 × (331/129)	(2,05,271)	2,94,729	
<i>Income from other sources</i>			
Dividend		5,000	
Interest on company deposit: 3 lakh @ 15% p.a. for 5 months (assuming deposit was made on 1.11.2022)		18,750	
		3,18,479	
Less: Exemption u/s 10(32)		(1,500)	
			3,16,979
<b>Gross total income</b>			<b>6,66,979</b>

It is assumed that total income of Madhav is greater than that of his spouse (before clubbing u/s 64(1A)). *Mistake by students – Clubbed income of Tapan who is a handicapped minor child.*

**B4. MINOR CHILD – CA2018(NOV) (modified) - Mr. and Mrs. Vinod Amin have three children – B, C and D aged 12, 16 and 19 years, respectively. Following are the receipts in the hands of B, C and D during the year ended 31.3.2023:**

- B received a gift of Rs. 70,000 from her friend's father on the occasion of her birthday.
- B won a prize money of Rs. 3,00,000 in National Quiz Competition. This was invested in debentures of a company from which interest of Rs. 19,000 (gross) accrued during the year.
- C won prize in a lottery. The net amount received after TDS was Rs. 1,05,000.
- D earned interest on fixed deposits in a bank of Rs. 9,000.

Mr. Vinod Amin's income before considering clubbing provisions is higher than that of his wife. Discuss how these items will be considered for taxation and compute the income to be clubbed in the hands of Mr. Vinod.

*Computation of income to be clubbed in the hands of Mr. Vinod for AY 2023-24*

Income of B and C will be clubbed u/s 64(1A) with the income of Mr. Vinod Amin as his income, before considering clubbing provisions, is higher than that of his wife. Income of D will not be clubbed as he is not a minor child.

Particulars	Rs.	Rs.
<i>Income of minor child B:</i>		
Gift from friend's father: Taxable u/s 56(2)(x) since it exceeds Rs. 50,000	70,000	
Prize money in quiz competition: Not clubbed since it is on account of skill and talent	-	
Interest on debentures: Clubbed	19,000	
	89,000	
Less: Exemption u/s 10(32)	(1,500)	87,500
<i>Income of minor child C:</i>		
Lottery prize: Grossed up = 1,05,000 × (100/70).	1,50,000	
Less: Exemption u/s 10(32): Not allowed on winning from lottery <sup>1</sup>	-	1,50,000
Income of major child D: Not clubbed		-
Income to be clubbed		2,37,500

*Mistake by students – Did not gross up lottery income for TDS u/s 194B @ 30% (para 214 of Concepts Book).*

**B5. MINOR CHILD – CA2019(NOV) - Mahadev, a noted bhajan singer of Rajasthan and his wife Dariya, furnish the following information relating to AY 2023-24:**

#	Particulars	Rs
1	Income of Mahadev – professional bhajan singer (computed)	5,65,000
2	Salary income of Dariya (computed)	3,80,000
3	Loan received by Dariya from Ramu & Jay (Pvt) Ltd. (Dariya holds 35% shares of the company and the company has incurred losses since its inception two years back)	2,50,000

<sup>1</sup> As per an alternative view, exemption u/s 10(32) can be provided. Refer footnote in para 181 of Concepts Book.

4	Income of their minor son, Golu from winning singing reality show on TV	2,50,000
5	Cash gift received by Golu from friend of Mahadev on winning the show	21,000
6	Interest income received by minor married daughter, Gudia, from deposit with Ramu & Jay (Pvt) Ltd	40,000

Compute total taxable income of Mahadev and Dariya for AY 2023-24.

■ Total income of parents before clubbing is Rs. 5,65,000 for Mahadev and Rs. 3,80,000 for Dariya. Loan is not taxable as deemed dividend u/s 2(22)(e) in the hands of Dariya in the absence of accumulated profits of the company even though Dariya holds  $\geq 10\%$  shares of the company. Thus, income of minor children will be clubbed with the income of Mahadev since his total income, before such clubbing, is greater.

*Computation of total taxable income of Mahadev for AY 2023-24*

Particulars	Rs.	Rs.
Income from profession		5,65,000
Income of minor son, Golu:		
• Income from singing reality show: Not clubbed since income is on account of skill and talent	-	
• Cash gift from friend of Mahadev – Not taxable u/s 56(2)(x) since does not exceed Rs. 50,000	-	-
Income of minor married daughter, Gudia:		
• Interest from deposit	40,000	
• Less: Exempt u/s 10(32)	(1,500)	38,500
Taxable income		6,03,500

Total taxable income of Dariya will remain at Rs. 3,80,000.

**B6. MINOR CHILD – CA2014(NOV)** – Mr. Mittal has four minor children consisting of three daughters and one son. The annual income of all the children for AY 2023-24 were as follows:

- First daughter (including scholarship received Rs. 5,000) Rs. 10,000
- Second daughter Rs. 8,500
- Third daughter (suffering from disability specified u/s 80U) Rs. 4,500
- Son Rs. 40,000

Mr. Mittal gifted Rs. 2 lakh to his minor son who invested the same in the business and derived income of Rs. 20,000 which is included above. Compute the amount of income earned by minor children to be clubbed in the hands of Mr. Mittal.

*Computation of income earned by minor children to be clubbed with the income of Mr. Mittal*

Particulars	Rs.	Rs.
First daughter:		
• Scholarship: Not clubbed assuming it is on account of skill, talent, specialized knowledge or experience. Also, assuming it is granted to meet cost of education, it is exempt u/s 10(16).	-	
• Other income	5,000	
• Less: Exempt u/s 10(32)	(1,500)	3,500
Second daughter:		
• Income	8,500	
• Less: Exempt u/s 10(32)	(1,500)	7,000
Third daughter: Income of minor child suffering from disability u/s 80U is not clubbed		-
Son:		
• Income (income from business of 20,000 plus other income of 20,000)	40,000	
• Less: Exempt u/s 10(32)	(1,500)	38,500
Total income to be clubbed in the hands of Mr. Mittal		49,000

**B7. MINOR CHILD – CA2012(NOV)** - Mr. B is the Karta of a HUF, whose members derive income as given below:

- Income from B's profession 45,000
- Mrs. B's salary as fashion designer 76,000
- Minor son D (interest on fixed deposit with a bank, gifted by his uncle) 10,000
- Minor daughter P's earnings from sports 95,000
- D's winnings from lottery (gross) 1,95,000

Discuss the tax implications in the hands of Mr. and Mrs. B.



■ Income of minor children is to be clubbed u/s 64(1A) with the income of Mrs. B, since her total income of 76,000 is greater than the total income of Mr. B of 45,000. It is assumed that income of Mr. B and Mrs. B is the total income, before clubbing u/s 64(1A).

*Computation of total income of Mrs. B for AY 2023-24*

Particulars	Rs.	Rs.
<b>Income from salary</b> (assumed it is computed)		76,000
<b>Income from other sources:</b>		
Income of minor son D:		
• Interest on FD	10,000	
• Winnings from lottery (gross)	1,95,000	
	2,05,000	
Less: Exempt u/s 10(32)	(1,500)	2,03,500
Income of P from earning from sports: Not clubbed since it is on account of skill and talent		-
<b>Total income</b>		<b>2,79,500</b>

Total income of Mr. B will remain at Rs. 45,000.

**B8. MINOR CHILD - CA2021(JULY)** – Dharmesh, 45 years old, and his wife Anandi, 42 years old, furnished the following information:

#	Particulars	Rs.
1	Salary income (computed) of Anandi	9,60,000
2	Income of minor son 'A' who suffers from disability specified in section 80U	3,08,000
3	Income of minor daughter 'C' from script writing for television serials	1,86,000
4	Income from garment trading business of Dharmesh	17,50,000
5	Cash gift received by minor daughter 'C' on 2.10.2022 from friend of Anandi, on winning of a story writing competition	45,000
6	Income of minor son 'B' from scholarship received from his school	1,00,000
7	Income of minor son 'B' from fixed deposit with Punjab National Bank, made out of income earned from scholarship	5,000

Compute the total income of Dharmesh and his wife Anandi for AY 2023-24 assuming they have not opted to be taxed u/s 115BAC.

■

*Computation of total income of Dharmesh and Anandi for AY 2023-24*

Particulars		Dharmesh	Anandi
Salary income (computed)			9,60,000
Income from garment trading business		17,50,000	
Total income before clubbing u/s 64(1A) (income of minor child is to be clubbed with income of Dharmesh since his total income before such clubbing is higher)		17,50,000	9,60,000
<b>Income of minor son 'A':</b> Not to be clubbed as he suffers from disability specified u/s 80U		-	
<b>Income of minor son 'B':</b>			
Scholarship received from his school: Exempt u/s 10(16) (para 30 of Concepts Book)*		-	
Income from fixed deposit with Punjab National Bank: Liable to be clubbed	5,000		
Less: Exempt u/s 10(32)	(1,500)		
		3,500	
<b>Income of minor daughter 'C':</b>			
Income from script writing for television serials: Not liable to be clubbed as it involves skill, talent or specialized knowledge or experience		-	
Cash gift from friend of Anandi: Nothing is taxable u/s 56(2)(x) as gift from non-relative does not exceed 50,000.		-	
<b>Total income</b>		<b>17,53,500</b>	<b>9,60,000</b>

\*Assuming it is granted to meet the cost of education. Alternatively, it can be assumed that it is granted by the school on account of skills, talent, specialized knowledge or experience of B and, hence, it is not liable to be clubbed u/s 64(1A).

**INCOME OF SPOUSE FROM CONCERN IN WHICH INDIVIDUAL HAS SUBSTANTIAL INTEREST**

**B9. REMUNERATION OF SPOUSE** - Mr. Sumer holds 20% equity shares in PQR Ltd. Mrs. Sumer is working as an accountant in the company, drawing a salary of Rs. 40,000 p.m. She does not possess any technical or professional qualification for the job. Mr. and Mrs. Sumer earn other income of Rs. 5 lakh and Rs. 3 lakh, respectively, during the year. Compute their gross total income for AY 2023-24. Also, make the computation assuming that Mrs. Sumer is a qualified Accountant.

*If Mrs. Sumer is not qualified for the job*

<b>Computation of GTI of Mr. Sumer for AY 2023-24</b>		Rs.	Rs.
Salary received by Mrs. Sumer: Mr. Sumer has substantial interest in PQR Ltd. as he owns $\geq 20\%$ equity shares. Mrs. Sumer is not qualified and income is not solely attributable to her professional knowledge and experience. It is clubbed u/s 64(1)(ii).		4,80,000	
Less: Standard deduction u/s 16(ia)		(50,000)	4,30,000
Other income			5,00,000
Gross total income			9,30,000
<b>Computation of GTI of Mrs. Sumer for AY 2023-24</b>		Rs.	Rs.
Salary: Clubbed with income of Mr. Sumer			-
Other income			3,00,000
Gross total income			3,00,000

*If Mrs. Sumer is qualified for the job*

<b>Computation of GTI of Mr. Sumer for AY 2023-24</b>		Rs.	Rs.
Salary received by Mrs. Sumer: Mrs. Sumer is qualified and income is solely attributable to her professional knowledge and experience. It is not clubbed u/s 64(1)(ii) even though Mr. Sumer has substantial interest in PQR Ltd.			-
Other income			5,00,000
Gross total income			5,00,000
<b>Computation of GTI of Mrs. Sumer for AY 2023-24</b>		Rs.	Rs.
Salary		4,80,000	
Less: Standard deduction u/s 16(ia)		(50,000)	4,30,000
Other income			3,00,000
Gross total income			7,30,000

**B10. REMUNERATION OF SPOUSE – CA2013(MAY)** - Mr. A is an employee of Larsen Ltd. and has substantial interest in the company. His salary is Rs. 25,000 p.m. Mrs. A is also working in that company at a salary of Rs. 10,000 p.m. without any professional qualification. Mr. A also receives Rs. 30,000 as income from securities. Mrs. A owns a house property which she has let out. Rent received from such house property is Rs. 12,000 p.m. Mr. & Mrs. A have three minor children – two twin daughters and one son. Income of twin daughters is Rs. 2,000 p.a. and that of his son is Rs. 1,200 p.a. Compute the income of Mr. and Mrs. A for AY 2023-24.

*Computation of income for AY 2023-24*

Particulars	Mr. A	Mrs. A
<b>Income from Salaries:</b>		
Own salary @ 25,000 p.m.	3,00,000	-
Less: Standard deduction u/s 16(ia)	(50,000)	
	2,50,000	
Salary of Mrs. A: Mr. A has substantial interest in the concern. Mrs. A is not qualified and income is not solely attributable to her professional knowledge and experience. Salary is clubbed with income of Mr. A u/s 64(1)(ii). Clubbing = 1,20,000 – 50,000 standard deduction u/s 16(ia)	70,000	
<b>Income from house property:</b>		
Gross annual value (12,000 $\times$ 12 months in the absence of any other information)		1,44,000
Less: Municipal taxes paid		-
Net annual value		1,44,000
Less: Standard deduction @ 30% of NAV		(43,200)
		1,00,800
<b>Income from other sources: Income from securities</b>	30,000	
Total Income before clubbing u/s 64(1A)*	3,50,000	1,00,800
Income of first daughter = 2,000 – 1,500 u/s 10(32). Income of each daughter is taken as 2,000 p.a.	500	
Income of second daughter = 2,000 – 1,500 u/s 10(32). Income of each daughter is taken as 2,000 p.a.	500	
Income of son = 1,200 – 1,500 u/s 10(32)	Nil	
<b>Income</b>	<b>3,51,000</b>	<b>1,00,800</b>

\*Income of minor children is to be clubbed with the income of Mr. A since his total income, before such clubbing, is greater. It is assumed that income of minor children is liable to be clubbed u/s 64(1A).

### INCOME FROM ASSETS TRANSFERRED TO SPOUSE OR SON'S WIFE

**B11-18. ASSET TO SPOUSE OR SON'S WIFE** – Determine the tax implications in the following situations for AY 2023-24.

#	Case
1	Mr. Z gifts bonds of XYZ Ltd. of FMV Rs. 2 lakh to his wife out of natural love and affection. Interest on bonds received for PY 2022-23 is Rs. 20,000.
2	Mr. Z gifts bank deposits to his wife on 1.2.2022. They are later divorced on 30.9.2022. Interest on deposits for the PY 2022-23 is Rs. 10,000.
3	Mr. Z gifts shares to his son, aged 20 years. Dividend received by son during the PY 2022-23 is Rs. 10,000.
4	Mr. Z gifts a car to his son's wife who sells it, thereby earning capital gain of Rs. 10,000.
5	Mr. Z gifts Rs. 1 lakh to his wife who purchases bonds therefrom, on which she receives Rs. 10,000 interest during PY 2022-23.
6	Mr. Z gifts Rs. 12 lakh to his wife who earns Rs. 1 lakh by investing it in fixed deposits. She reinvests Rs. 1 lakh in shares and earns dividend of Rs. 5,000.
7	Mr. Z transfers a house property to an AOP without consideration with the condition that 25% of income from the property will be utilized for the benefit of his son's wife.
8	Mr. Z gifts a house, owned by him, to his wife on 1.4.2022. FMV and SDV on this date are Rs. 15 lakh and Rs. 12 lakh, respectively. Rental income for the year is Rs. 2.4 lakh.

#	Clubbing of income in the hands of transferor	Income u/s 56(2)(x) in the hands of transferee
1	Income arises from bonds transferred to spouse without adequate consideration. Rs. 20,000 is clubbed in the hands of Mr. Z u/s 64(1)(iv).	S. 56(2)(x) does not apply as bonds are received from a relative.
2	Income arises from bank deposits transferred to spouse without adequate consideration. Rs. 5,000 is clubbed in the hands of Mr. Z u/s 64(1)(iv). Rs. 5,000 arising after 30.9.2022 is not clubbed as relation of spouse does not exist after divorce.	S. 56(2)(x) does not apply as bank deposits are received from a relative (at the time of gift).
3	Rs. 10,000 is taxable in the hands of son. Son is major. Thus, income is not clubbed u/s 64(1A).	S. 56(2)(x) does not apply as shares are received from a relative.
4	Income arises from car transferred to son's wife without adequate consideration. Rs. 10,000 is clubbed in the hands of Mr. Z u/s 64(1)(iv).	S. 56(2)(x) does not apply as car is not a specified movable asset and it is received from a relative.
5	Income arises from money transferred to spouse without adequate consideration. Rs. 10,000 is clubbed in the hands of Mr. Z u/s 64(1)(iv). Asset merely changes identity from cash to bonds and it is not a case of accretion.	S. 56(2)(x) does not apply as money is received from a relative.
6	Income arises from money transferred to spouse without adequate consideration. Rs. 1 lakh is clubbed in the hands of Mr. Z u/s 64(1)(iv). Rs. 5,000 is not clubbed as it is second generation income.	S. 56(2)(x) does not apply as money is received from a relative.
7	Income arises from house transferred to AOP without consideration. 25% of income is clubbed in the hands of Mr. Z u/s 64(1)(viii) (extent to which it is for the benefit of son's wife).	S. 56(2)(x) applies as house is not received from a relative.
8	House is transferred to spouse without adequate consideration. Mr. Z is deemed owner u/s 27(i). IHP of 1.68 lakh (2.4 lakh – SD @ 30%) is taxable in the hands of Mr. Z. S. 64(1)(iv) is not applicable.	S. 56(2)(x) does not apply as house is received from a relative.

**B19. ASSET TO SPOUSE – CA2017(NOV)** – Kamal gifted Rs. 10 lakh to his wife, Sulochana, on her birthday, on 1.1.2022. Sulochana lent Rs. 5 lakh out of the gifted amount to Krishna on 1.4.2022 for six months on which she received interest of Rs. 50,000. The said sum of Rs. 50,000 was invested in shares of a listed company on 15.10.2022 which were sold for Rs. 75,000 on 30.12.2022. STT was paid on such sale. Balance amount of gift was invested as capital by Sulochana in a business. She suffered loss of Rs. 15,000 in the business in FY 2022-23. In whose hands will the above income and loss be included in AY 2023-2? Give brief reasons.

■ **Interest on loan:** Rs. 50,000 will be clubbed in the hands of Kamal u/s 64(1)(iv), since loan is given by Sulochana to Krishna out of money gifted by her spouse.

**Capital gain on sale of shares of listed company:** STCG of Rs. 25,000 (75,000 – 50,000) will be taxable in the hands of Sulochana @ 15% u/s 111A since STT is chargeable on sale of shares. It will not be clubbed in the hands of Kamal u/s 64(1)(iv) since income is from investment of income from money gifted by Kamal. Income from accretion of transferred asset is not clubbed.

Loss from business: Rs. 15,000 of loss will be clubbed in the hands of Kamal u/s 64(1)(iv) as money gifted by Kamal has been invested by Sulochana in the business. It is assumed that capital was invested by Sulochana in the business on or before 1.4.2022 (being the 1<sup>st</sup> day of the PY) and the total investment in the business is entirely out of funds gifted by Kamal. As per Explanation 2 to section 64, for clubbing provisions, income includes loss.

**B20. ASSET TO SPOUSE** – Compute the amount to be included in the hands of Simran and Samar for AY 2022-23 and 2023-24, from the following particulars:

- FY 2021-22: Samar started a retail business on 1.4.2021 infusing a capital of Rs. 7,00,000 from own sources. Loss for the year was Rs. 5,00,000.
- FY 2022-23: His wife, Simran, a doctor, helped him with a gift of Rs. 6,00,000 on 1.4.2022. Samar invested this amount in his business on the same date. Profit for the year amounted to Rs. 3 lakh.

Will the answer change if Simran gave the amount to Samar as a loan?

■

Computation of amounts taxable in the hands of Simran and Samar

Particulars	AY 2022-23	AY 2023-24
First day of the PY	1.4.2021	1.4.2022
Total investment in business by Samar as on the first day of PY: <b>A</b>	7,00,000	8,00,000*
Value of assets transferred by Simran, without adequate consideration, invested by Samar in business, as on the first day of PY: <b>B</b>	-	6,00,000
Income from business: <b>C</b>	(5,00,000)	3,00,000
Income from business clubbed in the hands of Simran u/s 64(1)(iv) = <b>C × (B/A)</b>	-	2,25,000
Income from business taxable in the hands of Samar (balance)	(5,00,000)	75,000

\*7 lakh – Loss of 5 lakh for FY 2021-22 + Gift from spouse 6 lakh

Income will not arise u/s 56(2)(x) in the hands of Samar in respect of amount gifted as it is received from relative. Further, if Simran gave the amount to Samar as a loan, income would not be clubbed u/s 64(1)(iv) if the loan given is a bona fide loan.

**B21. ASSET TO SPOUSE** – Compute the amount to be included in the hands of Rashmi and her spouse for AY 2022-23 and 2023-24, from the following particulars:

- FY 2021-22: Rashmi started her business in 2020 (capital invested as on 1.4.2021 was Rs. 4,00,000). She received Rs. 3,00,000 as gift from her spouse on 15.4.2021 which she invested in the business on the same date. Profit from business for the year was Rs. 2,00,000.
- FY 2022-23: Profit from business for the year was Rs. 4,50,000.

■

Computation of amounts taxable in the hands of Rashmi and her spouse

Particulars	AY 2022-23	AY 2023=24
First day of the PY	1.4.2021	1.4.2022
Total investment in the business by Rashmi as on first day of the PY: <b>A</b>	4,00,000	9,00,000*
Value of assets transferred by spouse, without adequate consideration, invested by Rashmi in the business, as on the first day of PY: <b>B</b>	-	3,00,000
Income from business: <b>C</b>	2,00,000	4,50,000
Income from business clubbed in the hands of spouse u/s 64(1)(iv) = <b>C × (B/A)</b>	-	1,50,000
Income from business taxable in the hands of Rashmi (balance)	2,00,000	3,00,000

\*4 lakh + Profit 2 lakh + Gift from spouse 3 lakh

**B22. ASSET TO SPOUSE – CA2011(MAY)** - On 21.3.2022, Janak gifted to his wife Thilagam, 200 listed shares, which were bought by him on 19.4.2019 at Rs. 2,000 per share. On 1.6.2022, bonus shares were allotted in the ratio of 1:1. All these shares were sold by Thilagam as under:

Date of sale	Manner of sale	No. of shares	Net sales value Rs.
21.5.2022	Sold in recognized stock exchange, STT paid	100	2,20,000
21.7.2022	Private sale to an outsider	All bonus shares	1,25,000
28.2.2023	Private sale to her friend Hema (market value on this date Rs. 2,10,000)	100	1,70,000

Briefly state the tax consequences in respect of the sale of shares by Thilagam, showing clearly the person in whose hands the same is chargeable, the quantum and the head of income in respect of the above transactions. Detailed computation of total income is not required. Net sales value represents the amount credited after all taxes, levies, brokerages, etc. and the same may be adopted for computing capital gains.

■ **Capital gain on sale of 100 shares on 21.5.2022** – To be clubbed in the hands of Janak u/s 64(1)(iv), since income arises from shares transferred to spouse without adequate consideration. Section 112A applies as shares are held for more than 12 months and STT is paid (assumed it is paid on both purchase and sale).

Particulars	Rs.
Full value of consideration	2,20,000
Less: Cost of acquisition to Janak (previous owner) @ 2,000 per share. Indexation is not allowed u/s 112A.	(2,00,000)
Long term capital gain u/s 112A	20,000

**Capital gain on sale of 200 bonus shares on 21.7.2022** – Not to be clubbed in the hands of Janak u/s 64(1)(iv), since income arises from accretion to assets (shares) transferred to spouse without adequate consideration. STCG arises as shares are held for not more than 12 months. Income is taxable in the hands of Thilagam. STCG does not arise u/s 111A as it is a private sale to an outsider and, thus, STT is not chargeable on sale.

Particulars	Rs.
Full value of consideration	1,25,000
Less: Cost of acquisition	Nil
Short term capital gain	1,25,000

**Capital gain on sale of 100 shares on 28.2.2023** – To be clubbed in the hands of Janak u/s 64(1)(iv), since income arises from assets (shares) transferred to spouse without adequate consideration. Section 112 applies as shares are held for more than 12 months. Section 112A is not applicable as it is a private sale and, thus, STT is not payable.

Particulars	Rs.
Full value of consideration	1,70,000
Less: Indexed cost of acquisition = COA × (CII of 2022-23/CII of 2019-20) = 2 lakh (cost of previous owner) × (331/289)	(2,29,066)
Long term capital loss u/s 112	(59,066)

Receipt of shares by friend, Hema on 28.2.2023: Nothing is taxable u/s 56(2)(x) in the hands of Hema since FMV of 2,10,000 does not exceed consideration of Rs. 1,70,000 by more than Rs. 50,000.

**B23. ASSET TO SON'S WIFE – CA2011(NOV)** - Madan, aged 67 years, gifted a building owned by him to his son's wife Hema on 1.10.2022. The building fetched a rental income of Rs. 10,000 p.m. during the year. Municipal tax for the first half year of Rs. 5,000 was paid in June 2022 and the municipal tax for the second half year was not paid till 30.9.2023. Incomes of Madan and Hema, other than income from house property, are given below:

Name	Business income	Capital gain	Other sources
Madan	1,00,000	50,000 (long term)	1,50,000
Hema	(75,000)	2,00,000 (short term)	50,000

Capital gain does not relate to gain from shares and securities. Compute the total income of Madan and Hema, taking into account income from property given above and also compute their income tax liability for AY 2023-24. Assume that they have not opted for section 115BAC.

■

*Computation of total income of Madan and Hema for AY 2023-24*

Particulars	Madan	Hema
Income from house property (Note 1)	80,500	-
Business income	1,00,000	(75,000)
Long term capital gain	50,000	-
Short term capital gain	-	2,00,000
Income from other sources	1,50,000	50,000
Total income	3,80,500	1,75,000
Tax on long term capital gain u/s 112 @ 20% of 50,000	10,000	-
Tax on other income of 3,30,500 (assuming Madan is a resident in India)	1,525	-
Tax on total income of 1,75,000	-	Nil
	11,525	Nil
Less: Rebate u/s 87A	(11,525)	
	Nil	
Add: HEC @ 4%	Nil	Nil
<b>Tax liability</b>	<b>Nil</b>	<b>Nil</b>

*Note 1 – Income from house property*

Particulars	Madan 1.4.2022 to 30.9.2022	Hema 1.10.2022 to 31.3.2023
Gross annual value = 10,000 for 6 months (for the period house property owned by each). Rental value is taken as GAV in absence of further information in the question)	60,000	60,000
Less: Municipal tax paid by owner (paid in June for first half year only)	(5,000)	-
Net annual value	55,000	60,000
Less: Standard deduction @ 30% of NAV	(16,500)	(18,000)
Income from house property	38,500	42,000
Income arising to Hema is clubbed in the hands of Madan u/s 64(1)(vi) since income arises from asset transferred to son's wife without adequate consideration. Section 27(i) does not apply to transfer to son's wife.	42,000	
<b>Income from house property</b>	<b>80,500</b>	

**CONVERSION OF SELF-ACQUIRED PROPERTY INTO PROPERTY OF HUF**

**B24. HUF - CA2022(MAY)** - Mr. Sarthak is a member of HUF. It consists of himself, his wife Juhi and his major son Arjun and his minor daughter Aditi. Mr. Sarthak transferred his house property acquired through his personal income to the HUF without any consideration. On 1.10.2022, HUF is partitioned and such property being divided equally. Net annual value of the property for the PY 2022-23 is Rs. 1,00,000. Determine the tax implications.

■ Transfer by Sarthak to HUF without consideration: Capital gain does not arise to Sarthak by virtue of section 47(iii) as it is a gift. Income does not arise to the HUF u/s 56(2)(x) on receipt of house property as it is received from a relative.

Distribution of assets on partition of HUF: Capital gain does not arise to HUF by virtue of section 47(i). Income does not arise to the members u/s 56(2)(x) on receipt of house property as such event is excluded from the purview of this provision.

Income derived from the converted property is dealt with u/s 64(2). Income under the head IHP = NAV of 1,00,000 – Standard deduction of 30% = 70,000.

Particulars	Till 30.9.2022	From 1.10.2022
Taxable in the hands of Sarthak:		
• Income received by self	35,000	8,750
• Income received by Juhi is clubbed with the income of Sarthak u/s 64(2)	-	8,750
• Income received by Aditi (minor daughter) is clubbed with the Sarthak u/s 64(1A) (after giving exemption of 1,500 u/s 10(32)) assuming the total income of Sarthak (before such clubbing) is greater than Juhi.		7,250
Taxable in the hands of Arjun (major son)		8,750

Income taxable in the hands of Sarthak = Rs. 59,750. Income taxable in the hands of Arjun = 8,750.

**B25-27. HUF** - Determine in whose hands the income would be taxable in the following situations for AY 2023-24 in case of transactions between Mr. Z and the HUF of which he, his spouse, his father and his minor son are members.

#	Situation
1	Mr. Z gifts Rs. 10 lakh to the HUF. HUF deposits the money in a bank from which it earns interest of Rs. 1 lakh during the year.
2	Mr. Z transfers gold jewellery to HUF for a consideration of Rs. 5 lakh (FMV is Rs. 5 lakh). HUF sells the gold jewellery and earns capital gain of Rs. 1 lakh.
3	Mr. Z converts a property, purchased by him, as the property of HUF. On partition of HUF on 1.4.2022, the property is distributed equally amongst members. Income from the property is Rs. 1 lakh for the year.

#	Taxability
1	Mr. Z has transferred his property to HUF without adequate consideration. Rs. 1 lakh is taxable in the hands of Mr. Z u/s 64(2).
2	Section 64(2) will not apply as transfer is for adequate consideration. Capital gain of Rs. 1 lakh is taxable in the hands of HUF.
3	Mr. Z has converted his property into the property belonging to the HUF. Section 64(2) will apply. Rs. 73,500 will be taxable in the hands of Mr. Z (25,000 for self, 25,000 for spouse u/s 64(2), 23,500 for minor child u/s 64(1A) (25,000 – 1,500 exempt u/s 10(32))). Rs. 25,000 will be taxable in the hands of father.

**B28. CA2021(JULY)** – During the PY 2022-23, Mr. B's HUF comprising of Mr. B, Mrs. B, his minor son and his major daughter, sold listed equity shares thrown by Mr. B, in the common stock of the family. The said shares were equally divided among the members of the family and subsequently sold, earning an aggregate LTCG of Rs. 3,00,000. Compute the amount of income to be included in the hands of Mr. B. Mr. B is the sole earning member in the family. What would your answer be if the said shares were inherited by the HUF of Mr. B?

■ Mr. B threw the shares in the common stock of family otherwise than for adequate consideration. Hence, the provisions of section 64(2) will apply. Shares are sold after being equally divided among the members. Thus, income from property received by Mr. B would be taxable in his hands. Income received by Mrs. B will be clubbed in the hands of Mr. B u/s 64(2). Income received by minor son will be clubbed in the hands of Mr. B u/s 64(1A) after providing for exemption u/s 10(32), since total income of Mr. B, before such clubbing, is greater than Mrs. B (as he is the sole earning member). Income received by major daughter will not be clubbed.

*Computation of income to be included in the hands of Mr. B*

Particulars	Rs.
Income received by Mr. B	75,000
Income received by Mrs. B	75,000
Income received by minor son (75,000 – 1,500 exempt u/s 10(32))	73,500
	<b>2,23,500</b>

If shares are inherited by the HUF, section 64(2) will not apply. Consequently, income received by Mr. B (75,000) and his minor son (75,000 – 1,500 exempt u/s 10(32)) will be included in the income of Mr. B, i.e., 1,48,500.

**B29. HUF – CA2016(MAY)** – Mr. N, a member of his father's HUF, transferred a house property to the HUF without consideration. The value of the house is Rs. 10 lakh as per the registrar of stamp duty. Discuss the taxability in the hands of the recipients.

■ Capital gain will not arise in the hands of Mr. N u/s 47(iii) as it is a gift. Gift from a relative (member of HUF) is not taxable in the hands of HUF u/s 56(2)(x). Income computed under the head IHP will be taxable in the hands of Mr. N u/s 64(2).

### CROSS TRANSFERS

**B30. CROSS TRANSFER** – Mr. Y gifted Rs. 10 lakh to Mrs. X, the wife of his brother, on 16.9.2022. On 20.9.2022, Mr. X gifted Rs. 8 lakh to Mrs. Y. The amounts were invested by both in fixed deposit with Bank of India on 1.10.2022 at 10% interest p.a. Determine the tax consequences.

■ Transfers are in the nature of cross transfers. They are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise. Thus, income from assets transferred (to the extent of Rs. 8 lakh) will be clubbed in hands of deemed transferor.

Interest on Rs. 8 lakh arising to Mrs. X will be clubbed with the income of Mr. X u/s 64(1)(iv). Interest on Rs. 8 lakh arising to Mrs. Y will be clubbed with the income of Mr. Y u/s 64(1)(iv).

**B31. CROSS TRANSFER – CA2019(MAY)** - Briefly explain with example, the meaning of cross transfer, the objective to make such transactions and implications thereof under the income tax law.

■ Refer para 185 of Concepts Book. Mistake by students – Lack of conceptual knowledge of this topic. Failure to properly explain the concept with the help of an example.

### COMPREHENSIVE

**B32. CA2021(DEC)** - Details of Income of Mr. R and his wife Mrs. R for the previous year 2022-23 are as under:

(i) Mr. R transferred his self-occupied property without any consideration to the HUF of which he is a member. During the previous year 2022-23 the HUF earned an income of Rs. 50,000 from such property.

(ii) Mr. R transferred Rs. 4,00,000 to his wife Mrs. R on 1.4.2008 without any consideration which was given as a loan by her to Mr. Girish. She earned Rs. 3,50,000 as interest during the earlier previous years which was also given as a loan to Mr. Girish. During the previous year 2022-23, she earned interest @ 11% per annum.

(iii) Mr. R and Mrs. R both hold equity shares of 27% and 25% respectively in AMG Limited. They are also working as employees in such Company. During the financial year 2022-23 they have withdrawn a salary of Rs. 3,20,000 and 2,70,000 respectively.

(iv) Mrs. R transferred 5,000 equity shares of RSB Ltd. on 17.09.2015 to Mr. R without any consideration. The Company issued 3,000 bonus shares to Mr. R in 2018. On 04.03.2022, Mr. R sold entire share holdings and earned Rs. 5,20,000 as capital gains.

Apart from above income, Mr. R has income from commission Rs. 4,00,000 and Mrs. R has interest income of Rs. 3,30,000.

Compute Gross Total income of Mr. R and Mrs. R for the assessment year 2023-24.

■

Computation of gross total income of Mr. and Mrs. R for AY 2023-24

Particulars	Mr. R	Mrs. R
<b>Income from house property</b>		
Income from self-occupied property transferred to HUF without consideration: Taxable in the hands of Mr. R u/s 64(2) (assuming the figure is computed under the head IHP)	50,000	
<b>Capital gain</b>		
Capital gain on transfer of equity shares: Capital gain on 5,000 shares is clubbed in the hands of Mrs. R u/s 64(1)(iv). Capital gain on 3,000 bonus shares is taxable in the hands of Mr. R as it is on account of sale of accretion to the shares gifted. LTCG on sale of 3,000 bonus shares = 1,95,000. LTCG on sale of 5,000 original shares = 3,25,000. <sup>2</sup>	1,95,000	3,25,000
<b>Income from other sources</b>		
Interest on loan given out of money gifted by Mr. R: Clubbed in the hands of Mr. R u/s 64(1)(iv) @ 11% of 4,00,000. Interest on loan given out of interest @ 11% of 3,50,000 <sup>3</sup> will not be clubbed as it is second-generation income.	44,000	38,500
Income from commission	4,00,000	
Income from interest (apart from the above)		3,30,000
Total income (before clubbing of salary income u/s 64(1)(ii))	6,89,000	6,93,500
<b>Salaries</b>		
Mr. R and Mrs. R have substantial interest in AMG Ltd as each of them (along with the other) hold $\geq 20\%$ equity shares. It is assumed that both are unqualified for the job. Total income (as referred above) is greater for Mrs. R. Hence, salary of Mr. R is clubbed in the hands of Mrs. R u/s 64(1)(ii) after giving standard deduction of Rs. 50,000 for each.		
Salary of Mrs. R		2,20,000
Salary of Mr. R		2,70,000
<b>Gross total income</b>	<b>6,89,000</b>	<b>11,83,500</b>

**B33. CA2021(JAN)** - Mr. Gupta and his wife Mrs. Gupta are partners in a partnership firm holding 25% share each. During the FY 2022-23, the firm paid Rs. 2,50,000 to each of them as remuneration. Apart from this, they provide you the following information in respect of FY 2022-23:

- Salary received by Mr. Gupta from his employer Rs. 12,50,000.
  - Interest on fixed deposit earned by Mrs. Gupta Rs. 14,00,000. The fixed deposit was opened by using her 'Stridhan'.
  - Income of their three minor children Neeta, Meeta and Seeta was Rs. 15,000, Rs. 10,000 and Rs. 2,000, respectively.
- You are required to compute the gross total income of Mr. and Mrs. Gupta for AY 2023-24.

Computation of gross total income of Mr. Gupta and Mrs. Gupta for AY 2023-24

Particulars	Mr. Gupta	Mrs. Gupta
Salary	12,50,000	
Less: Standard deduction u/s 16(ia)	(50,000)	
	12,00,000	
Interest on fixed deposit opened using 'Stridhan': Not clubbed u/s 64(1)(iv)		14,00,000
Remuneration from firm: Taxable, assuming that remuneration is fully deductible in the hands of the firm u/s 40(b).*		5,00,000
Total income (before clubbing income of minor children u/s 64(1A))	12,00,000	19,00,000
Income of minor children is clubbed with the income of Mrs. Gupta u/s 64(1A) since her total income (before such clubbing) is greater. <sup>4</sup>		
• Neeta = 15,000 – 1,500 exemption u/s 10(32)		13,500
• Meeta = 10,000 – 1,500 exemption u/s 10(32)		8,500
• Seeta = 2,000 – 1,500 exemption u/s 10(32)		500
		22,500
<b>Gross total income</b>	<b>12,00,000</b>	<b>19,22,500</b>

<sup>2</sup> In the absence of any information in the question, capital gains is apportioned on the basis of number of original shares to number of bonus shares.

<sup>3</sup> Assuming that amount of interest was given as a loan for the whole of the PY.

<sup>4</sup> It is assumed that income of minor children is not on account of manual work or skill/talent.



\*In absence of information in the question, it is assumed that both are unqualified for the work. Since both have substantial interest in the firm (each, along with the other, is entitled to  $\geq 20\%$  profits), income is clubbed in the hands of spouse, whose total income (excluding such remuneration) is higher (Mrs. Gupta). Remuneration = Rs. 2,50,000 own remuneration + Rs. 2,50,000 remuneration clubbed u/s 64(1)(ii).

**B34. CA2021(JAN)** - During the PY 2022-23, following transactions took place in respect of Mr. Raghav who is 56 years old.

1. Mr. Raghav owns two house properties in Mumbai. The details in respect of these properties are as under:

Particulars	House 1 Self occupied	House 2 Let out
Rent received per month	Not applicable	60,000
Municipal taxes paid	7,500	Nil
Interest on loan (taken for purchase of property)	3,50,000	5,00,000
Principal repayment of loan (taken from HDFC bank)	2,00,000	3,00,000

2. Mr. Raghav had a house in Delhi. During FY 2013-14, he had transferred the house to Vamika, daughter of his sister without any consideration. House would go back to Mr. Raghav after the life time of Vamika. The transfer was made with a condition that 10% of rental income from such house shall be paid to Mrs. Raghav. Rent received by Vamika during PY 2022-23 from such house property is Rs. 5,50,000.

3. Mr. Raghav receives following income from M/s M Pvt. Ltd. during PY 2022-23:

- Interest on debentures of Rs. 7,50,000; and
- Salary of Rs. 3,75,000. He does not possess the adequate professional qualification commensurate with the salary received by him.

Shareholding of M/s M Pvt. Ltd. as on 31.3.2023 is as under:

	Equity shares	Preference shares
Mr. Raghav	Nil	Nil
Mrs. Raghav	2%	25%
Mr. Jai Kishan (brother of Mrs. Raghav)	98%	75%

4. Mr. and Mrs. Raghav form a partnership firm with equal share in profits. Mr. Raghav transferred a fixed deposit of Rs. 1 crore to such firm. Firm had no income or expense other than the interest of Rs. 9,00,000 received from such fixed deposit. Firm distributed the entire surplus to Mr. and Mrs. Raghav at the end of the year.

5. Mr. Raghav holds preference shares in M/s K Pvt. Ltd. He instructed the company to pay dividends to Geetanshi, daughter of his servant. The transfer is irrevocable for the life time of Geetanshi. Dividend received by Geetanshi during PY 2022-23 is Rs. 3,00,000.

6. Other income of Mr. Raghav includes:

- Interest from saving bank account of Rs. 2,00,000
- Cash gift of Rs. 75,000 received from daughter of his sister on his birthday

Compute the total income of Mr. Raghav for AY 2023-24.

■

Computation of total income of Mr. Raghav for AY 2023-24

Particulars	Rs.	Rs.
<b>Income from salary</b>		
Mrs. Raghav, along with her brother, holds $\geq 20\%$ equity shares in M Pvt. Ltd. Since Mr. Raghav does not possess commensurate qualification, salary will be clubbed with the income of Mrs. Raghav.		-
<b>Income from house property</b>		
<b>House 1 – Self occupied</b>		
Gross annual value	Nil	
Less: Municipal taxes paid	Nil	
Net annual value	Nil	
Less: Interest on loan deductible u/s 24(b) up to Rs. 2 lakh	(2,00,000)	
		(2,00,000)
<b>House 2 – Let out</b>		
Gross annual value (rent taken in absence of any further information)	7,20,000	
Less: Municipal taxes paid	Nil	
Net annual value	7,20,000	

Less: Standard deduction u/s 24(a) of 30% of NAV	(2,16,000)	
Less: Interest on loan deductible u/s 24(b)	(5,00,000)	
		4,000
<b>House in Delhi</b>		
Since Mr. Raghav derives direct/indirect benefit from income from house transferred without consideration, income therefrom will be clubbed in the hands of Mr. Raghav as per section 61 even if the transfer to Vamika is not revocable during her lifetime. Income from the house will be taxable in the hands of Mr. Raghav.		
Gross annual value (rent taken in absence of any other information)	5,50,000	
Less: Municipal taxes paid	-	
Net annual value	5,50,000	
Less: Standard deduction u/s 24(a) of 30% of NAV	(1,65,000)	
Less: Interest on loan deductible u/s 24(b)	-	
		3,85,000
		1,89,000
<b>Profits and gains of business or profession</b>		
Share of profit from partnership firm: Exempt u/s 10(2A), hence, cannot be clubbed		
		-
<b>Income from other sources</b>		
Dividend from preference shares: Taxable in his hands u/s 60 since there is transfer of income to Geetanshi without transfer of assets being shares, even though transfer is irrevocable during the life time of Geetanshi.	3,00,000	
Interest on debentures	7,50,000	
Interest on savings bank account	2,00,000	
Cash gift from daughter of sister: Taxable u/s 56(2)(x) as it is > 50,000 and not received from relative	75,000	
		13,25,000
<b>Gross total income</b>		15,14,000
Less: Deductions u/c VIA (see Chapter 12):		
U/s 80C: Principal repayment of loan from bank for purchase of house allowed up to Rs. 1.5 lakh	1,50,000	
U/s 80TTA: Interest on savings bank account allowed up to Rs. 10,000	10,000	
		(1,60,000)
<b>Total income</b>		<b>13,54,000</b>

**B35. COMPREHENSIVE – CA2020(NOV)** - Determine the gross total income of Shri Ram Kumar and Smt Ram Kumar for AY 2023-24 from the following:

- Salary received by Shri Ram Kumar from a company of Rs. 1,80,000 p.a. and Smt Ram Kumar also doing job in a company and getting salary of Rs. 2,40,000 p.a.
- Shri Ram Kumar transferred a flat to his wife Smt Ram Kumar on 1.9.2022 for adequate consideration. The rent received from this let out flat is Rs. 9,000 p.m.
- Shri Ram Kumar and his wife Smt Ram Kumar both are partners in a firm. Shri Ram Kumar received Rs. 36,000 and Smt Ram Kumar received Rs. 64,000 as interest from the firm and also had a share of profit of Rs. 12,000 and Rs. 26,000, respectively.
- Smt Ram Kumar transferred 10% debentures worth Rs. 3,00,000 to Shri Ram Kumar. The whole amount of Rs. 3,30,000 was invested by Shri Ram Kumar in the similar investments and earned income of Rs. 39,000.
- Mother of Shri Ram Kumar transferred a property to Master Rohit (son of Shri Ram Kumar) in the year 2020. Master Rohit (aged 13 years) received Rs. 15,000 as income from this property on 20.2.2023.

■  
Computation of gross total income of Shri Ram Kumar and Smt Ram Kumar for AY 2023-24

Particulars	Shri Ram Kumar		Smt Ram Kumar	
<b>Income from salary</b>				
Salary	1,80,000		2,40,000	
Less: Standard deduction u/s 16(ia)	(50,000)		(50,000)	
		1,30,000		1,90,000
<b>Income from house property</b>				
Gross annual value for Shri Ram Kumar = 9,000 pm for 5 months. Rent is taken in	45,000			

absence of any further information.			
Gross annual value for Smt Ram Kumar = 9,000 pm for 7 months (income is not clubbed with the income of Shri Ram Kumar u/s 64(1)(iv) since transfer is for adequate consideration). Rent is taken in absence of any further information.			63,000
Less: Standard deduction u/s 24(a) @ 30%	(13,500)		(18,900)
		31,500	44,100
<b>Profits and gains of business or profession</b>			
Interest from firm. Taxable, assuming it is fully deductible in hands of firm u/s 40(b). Not clubbed in absence of any information to identify coverage of section 64(1).	36,000		64,000
Share of profit is exempt u/s 10(2A)	-		-
		36,000	64,000
<b>Income from other sources</b>			
Interest on debentures (Note 1)	-		30,000
Income from investment (Note 2)	3,545		35,455
		3,545	65,455
<b>Gross total income (it is also the total income before clubbing income of minor child u/s 64(1A))</b>		<b>2,01,045</b>	<b>3,63,555</b>
Income from property of Master Rohit clubbed in the hands of Smt Ram Kumar u/s 64(1A) since her total income (before such clubbing) is greater (Note 3)			15,000
Less: Exemption u/s 10(32)			(1,500)
			13,500
<b>Total income</b>		<b>2,01,045</b>	<b>3,77,055</b>

**Note 1:** Assumed that Smt. Ram Kumar transferred debentures to Shri Ram Kumar without adequate consideration; hence, interest is clubbed in her hands u/s 64(1)(iv). Since date of transfer is not given in the question, it is assumed that interest was paid after the transfer and was received by Shri Ram Kumar. Hence, Rs. 30,000 (10% of Rs. 3,00,000) is clubbed in the hands of Smt. Ram Kumar.

**Note 2:** Assumed that Shri Ram Kumar redeemed the debentures and reinvested Rs. 3,30,000 (Rs. 3,00,000 on redemption + Rs. 30,000 interest) in debentures, earning interest income of Rs. 39,000. Income relating to Rs. 3,00,000 will be clubbed u/s 64(1)(iv) since asset has merely changed identity. However, income relating to the accretion of transferred asset (Rs. 30,000) will not be clubbed. Income to be clubbed =  $39,000 \times (3,00,000 \div 3,30,000) = 35,455$ .

**Note 3:** In absence of any information in the question, it is assumed that the property is not a house property. Consequently, standard deduction of 30% u/s 24(a) has not been provided.

**B36. COMPREHENSIVE – CA2012(MAY) -** During the PY 2022-23, the following transactions occurred in respect of Mr. A.

- Mr. A had a fixed deposit of Rs. 5,00,000 in Bank of India. He instructed the bank to credit the interest on the deposit @ 9% from 1.4.2022 to 31.3.2023 to the savings bank account of Mr. B, son of his brother, to help him in his education.
- Mr. A holds 75% profit share in a partnership firm. Mrs. A received a commission of Rs. 25,000 from the firm for promoting the sales of the firm. She possesses no technical or professional qualification.
- Mr. A gifted a flat to Mrs. A on 1.4.2022. During the previous year, the flat generated a net income of Rs. 52,000 to Mrs. A.
- Mr. A gifted Rs. 2,00,000 to his minor son who invested the same in a business and he derived income of Rs. 20,000 from the investment.
- Mr. A's minor son derived an income of Rs. 20,000 through a business activity involving application of his skill and talent. During the year, Mr. A got a monthly pension of Rs. 10,000. He had no other income. Mrs. A received salary of Rs. 20,000 per month from a part time job.

Discuss the tax implications of each transaction and compute the total income of Mr. A, Mrs. A and their minor child.

■

*Computation of total income for AY 2023-24*

Particulars	Mr. A	Mrs. A	Minor Son
<b>Income under the head 'Salaries':</b>			
Salary income	1,20,000	2,40,000	
Less: Standard deduction u/s 16(ia)	(50,000)	(50,000)	
	70,000	1,90,000	

<b>Income from house property:</b>			
Mr. A is deemed owner u/s 27(i). Section 64(1)(iv) does not apply to Mr. A. Further, nothing is taxable u/s section 56(2)(x) in the hands of Mrs. A since receipt is from a 'relative'.	52,000		
<b>Income from other sources:</b>			
Interest on FD with Bank of India: Taxable in the hands of Mr. A u/s 60 since there is transfer of income without transfer of asset = 9% of 5 lakh	45,000		
Commission received by Mrs. A from a partnership firm in which Mr. A has substantial interest and Mrs. A is not qualified: Clubbed with the income of Mr. A u/s 64(1)(ii)	25,000		
<b>Income before clubbing income of minor son u/s 64(1A) (clubbing is to be made with income of Mr. A since his income, before such clubbing, is greater)</b>	1,92,000	1,90,000	
Income of minor son from investment made in business out of amount gifted by Mr. A: Clubbed u/s 64(1A) = 20,000 – 1,500 exempt u/s 10(32). Nothing is taxable u/s section 56(2)(x) in the hands of minor son since receipt of gift is from a 'relative'.	18,500		
Income of minor son through business activity involving skill and talent: Not clubbed			20,000
<b>Total income</b>	<b>2,10,500</b>	<b>1,90,000</b>	<b>20,000</b>

**B37. COMPREHENSIVE** – Compute the gross total income of Mr. and Mrs. Z for the AY 2023-24 from the following particulars:

- Mr. and Mrs. Z hold 11% voting power each in D Pvt. Ltd. Both are employed with the company on a salary of Rs. 6,00,000 and Rs. 5,00,000 p.a., respectively. However, Mrs. Z is employed without necessary qualification.
- Mr. and Mrs. Z received dividend (net of TDS @ 10%) of Rs. 18,000 and Rs. 27,000, respectively, from D Pvt. Ltd. On the instructions of Mr. Z, the company credited 50% of his dividend to the account of Ms. C, the daughter of his brother.
- Mr. Z carries on a sole proprietary business from which he earned a profit of Rs. 10,00,000.
- Mrs. Z holds fixed deposits with Dena Bank from which she earned interest of Rs. 7,00,000 during the year.
- The grandfather of Master G, the minor son of Mr. and Mrs. Z, had created a fixed deposit in Bank of India in the name of Master G. Master G received interest of Rs. 36,000 on such deposit (net of TDS @ 10%).

Computation of gross total income of Mr. and Mrs. Z for the AY 2023-24

Particulars	Mr. Z	Mrs. Z
Salary of Mr. Z = 6,00,000 – Standard deduction of 50,000.	5,50,000	
Salary of Mrs. Z = 5,00,000 – Standard deduction of 50,000. This is clubbed with the income of Mr. Z u/s 64(1)(ii) as Mr. Z has substantial interest in D Pvt. Ltd. (he, along with Mrs. Z, owns ≥ 20% equity shares) and Mrs. Z is not qualified for the job.	4,50,000	
Business income from sole proprietary business	10,00,000	
Dividend from D Pvt. Ltd.: Amount credited to the account of Ms. C is taxable in the hands of Mr. Z u/s 60 as it is a case of transfer of income without transfer of assets. Dividend is grossed up for TDS @ 10%. Dividend of Mr. Z = 20,000 × 2	40,000	30,000
Interest on FD with Dena Bank		7,00,000
<b>Total income (before clubbing income of Master G u/s 64(1A))</b>	<b>20,40,000</b>	<b>7,30,000</b>
Interest on FD with Bank of India is clubbed with income of Mr. Z as his total income (before such clubbing) is greater than that of Mrs. Z. Income to be clubbed = 40,000 grossed up for TDS – 1,500 exempt u/s 10(32)	38,500	
<b>Gross total income</b>	<b>20,78,500</b>	<b>7,30,000</b>

**B38. COMPREHENSIVE – MASTER QUESTION** - Compute the gross total income of Shalv, his spouse Shivi, his sons Shiva (12 years), Shlok (15 years) and Shimoli (20 years), for AY 2023-24 from the following particulars:

- Shalv carried on a software development business from which he earned business income (computed) of Rs. 6,00,000.
- Shlok suffers from a disability certified u/s 80U but he sings very well on account of which he earned a prize of Rs. 50,000 by participating in a national competition. He also earned dividend of Rs. 20,000 from shares in Zed Ltd. purchased from Rs. 2 lakh gifted by Shalv on 1.1.2022.
- Shiva had the following incomes during the previous year:
  - Rs. 1,50,000 received from playing a quiz master in a TV quiz show. He invested this money in a business venture of his uncle from which he earned a profit share of Rs. 25,000.
  - Interest of Rs. 10,000 from fixed deposits with Punjab National Bank made out of Rs. 1 lakh gifted by Shalv on 1.4.2022.
  - Rs. 30,000 received from sale of mobile phone on 1.10.2022 which was gifted by Shalv on his birthday on 1.6.2022. Shalv had purchased the mobile phone on 1.5.2021 for Rs. 50,000.

d. Rs. 35,000 received as lottery prize (net of TDS @ 30%).

4. Shalv gifted a house to Shimoli on her 20<sup>th</sup> birthday on 1.4.2022. She earned rent of Rs. 10,000 p.m. from the house.
5. Shivi worked as a Hindi teacher in a school where she received a salary of Rs. 30,000 p.m.
6. Shivi was paid a fee of Rs. 60,000 by JKL Pvt. Ltd. on 1.9.2022 for providing tax consulting service. She had purchased 15% shares in the company on 15.4.2022. Shalv was already a 15% shareholder in the company since 1.1.2022.
7. Shalv gifted a flat to Shivi on 1.4.2022 (FMV and SDV on this date were Rs. 15 lakh and Rs. 12 lakh, respectively). Shivi let out the flat on a monthly rent of Rs. 25,000. Municipal taxes for the year amounted to Rs. 5,000 which were paid on 15.5.2023. Shivi used the annual rental income to purchase shares of BCD Ltd. from which she received dividend of Rs. 15,000 during the year. She was allotted bonus shares on 1.2.2023 by BCD Ltd. which she sold for Rs. 50,000 on 15.3.2023.
8. Shivi started a part time business on 20.6.2021 by investing Rs. 5,00,000 out of her own savings. Later, Shalv gifted Rs. 3,00,000 on 1.10.2021 which she invested in the business on this date. Profit from business was Rs. 2,00,000 for PY 2021-22 and Rs. 1,50,000 for PY 2022-23. She withdrew Rs. 1,00,000 on 15.3.2022.
9. Shalv gifted Rs. 15 lakh to his HUF on 1.10.2021 of which he, along with his spouse and children, were members. HUF invested this money to acquire a property which generated income of Rs. 1,00,000 for the PY 2022-23 (income accrued evenly across the year). The HUF was partitioned on 1.1.2023 and property was distributed equally amongst all the members.
10. On 1.9.2022 Shalv gifted Rs. 5 lakh to the spouse of Shivam, his brother. On 10.9.2022, Shivam gifted Rs. 7 lakh to Shivi. Both invested the money as fixed deposits in SBI on 1.10.2022 at 10% interest p.a.
11. During the year, Shivi directed her banker, Bank of Maharashtra, to credit interest on certain fixed deposits, held in her name, to the account of her mother. Rs. 15,000 were accordingly credited for the PY 2022-23.
12. Shivi transferred the copyright, owned by her in respect of a book, to her close friend with the condition that 25% of royalty income from sale of books should be credited in her bank account. Royalty income for the PY 2022-23 was Rs. 2,00,000.

Computation of gross total income for AY 2023-24

Particulars	Shalv	Shivi	Shiva	Shlok	Shimoli
<b>Income under the head 'Salaries':</b>					
Salary from school		3,60,000			
Less: Standard deduction u/s 16(ia)		(50,000)			
		3,10,000			
<b>Income from house property:</b>					
From house gifted to Shimoli (Note 1)					84,000
From flat gifted to Shivi (Note 2)	2,10,000				
<b>Profits and gains of business or profession:</b>					
Income from software development business	6,00,000				
Income from part time business of Shivi (Note 4)	50,000	1,00,000			
<b>Capital gains:</b>					
Short term capital gain on sale of shares of BCD Ltd. (Note 3)		50,000			
<b>Income from other sources:</b>					
Prize from singing: Not clubbed u/s 64(1A) since Shlok suffers from a disability specified u/s 80U and also it is on account of his skill and talent				50,000	
Dividend from Zed Ltd.: Not clubbed u/s 64(1A) since Shlok suffers a disability specified u/s 80U. Section 56(2)(x) was also not applicable on gift of 2 lakh for AY 2022-23 since it was received from 'relative'				20,000	
Income from playing quiz master: Not clubbed u/s 64(1A) since income arises on account of skill and talent			1,50,000		
Fee from JKL Pvt. Ltd for tax consulting service: Clubbed with the income of Shalv u/s 64(1)(ii) since he (along with Shivi) hold $\geq 20\%$ equity shares and Shivi is not qualified to work as tax consultant	60,000				
Dividend from BCD Ltd.: Not clubbed with the income of Shalv u/s 64(1)(iv) since it is second-generation income.		15,000			
Income from property before partition of HUF (for 9 months): Taxable in the hands of Shalv u/s 64(2)	75,000				

Income from property after partition of HUF (for 3 months) of 25,000:	10,000			5,000	5,000
<ul style="list-style-type: none"> <li>Taxable in the hands of Shalv = His own share of 5,000 + Shivi's share of 5,000 clubbed in his hands u/s 64(2) + Shiva's share clubbed u/s 64(1A) 5,000 (considered below).</li> <li>Taxable in the hands of Shimoli = Her share of 5,000</li> <li>Taxable in the hands of Shlok = His share of 5,000 (not clubbed u/s 64(1A) as he suffers from a disability specified u/s 80U)</li> </ul>					
Interest on FD with SBI ( <b>Note 5</b> )	25,000	10,000			
Interest on FD with BOM: Taxable in the hands of Shivi u/s 60 since income is transferred without transfer of assets		15,000			
Royalty: Taxable in the hands of Shivi u/s 63 since the transfer provides for retransfer of income		2,00,000			
<b>Total Income before clubbing incomes of Shiva u/s 64(1A):</b> Since this is greater for Shalv, income of Shiva is clubbed with his income, assuming this is the first year in which clubbing is attracted	<b>10,30,000</b>	<b>7,00,000</b>			
Profit share of Shiva from business of his uncle	25,000				
Interest on FD with PNB from money gifted by Shalv (section 56(2)(x) is not applicable on gift of 1 lakh since it is received from 'relative')	10,000				
Short term capital gain (loss) arising on sale of mobile phone by Shiva = 20,000 (30,000 Consideration – 50,000 cost of acquisition of Shalv, the previous owner). However, this can only be set-off against capital gain. Hence, it is carried forward u/s 74 (refer para 190 of Concepts Book). <sup>5</sup>	-				
Lottery prize: Grossed up for TDS = 35,000 × (100/30)	50,000				
Income from property after partition of HUF (see working above)	5,000				
Less: Exemption u/s 10(32) <sup>6</sup>	(1,500)				
<b>Gross total income</b>	<b>11,18,500</b>	<b>7,00,000</b>	<b>1,50,000</b>	<b>75,000</b>	<b>89,000</b>

*Note 1 – Income from house gifted to Shimoli*

Section 27(i) does not apply to house gifted to major child. Hence, Shalv is not the deemed owner of the house. Income is taxable in hands of Shimoli. Section 56(2)(x) is not applicable to Shimoli since house is received from 'relative'. Capital gain does not arise in the hands of Shalv by virtue of section 47(iii) since transfer of house is by way of gift.

Particulars	Rs.
Gross annual value = Annual rent is taken in absence of any other information	1,20,000
Less: Municipal taxes paid during the year	-
Net annual value	1,20,000
Standard deduction u/s 24 @ 30% of NAV	(36,000)
Income from house property	84,000

*Note 2 – Income from flat gifted to Shivi*

Shalv is the deemed owner of flat u/s 27(i) and income from house property is taxable in his hands. Capital gain does not arise in the hands of Shalv by virtue of section 47(iii) since transfer of house is by way of gift. Section 56(2)(x) is not applicable to Shivi since flat is received from a 'relative'.

Particulars	Rs.
Gross annual value = Annual rent is taken in absence of any other information	3,00,000
Less: Municipal taxes paid during the year	-
Net annual value	3,00,000
Standard deduction u/s 24 @ 30% of NAV	(90,000)
Income from house property	2,10,000

<sup>5</sup> Capital gain is not leviable on Shalv on gift to Shiva by virtue of section 47(iii). Section 56(2)(x) is not applicable to Shiva on gift of phone since it is not a specified movable property and it is received from a 'relative'.

<sup>6</sup> Exemption has not been given from winning from lottery, as per one view. As per another view, exemption can be granted. Refer footnote on para 181 of Concepts Book. Students can follow either view by giving a suitable note in the answer.

**Note 3 – Income from sale of shares of BCD Ltd.**

Not clubbed with the income of Shalv u/s 64(1)(iv) since it is income from accretion of assets acquired by investing income from asset gifted by Shalv

Particulars	Rs.
Full value of consideration	50,000
Less: Cost of acquisition of bonus shares	Nil
Short term capital gain	50,000

**Note 4 – Income from part time business of Shivi**

Particulars	PY 2022-23
First day of the PY	1.4.2022
Total investment in the business by Shivi as on first day of the PY = 5 lakh out of her own savings + 3 lakh gifted by Shalv + 2 lakh profit for 2021-22 – 1 lakh drawings during 2021-22 = 9 lakh: <b>A</b>	9,00,000
Value of assets transferred by Shalv, without adequate consideration, invested by Shivi in business, as on first day of the PY: <b>B</b>	3,00,000
Income from business: <b>C</b>	1,50,000
Income from business clubbed with the income of Shalv u/s 64(1)(iv) = $C \times (B/A)$	50,000
Income from business taxable in the hands of Shivi (balance)	1,00,000

Note: Section 56(2)(x) was not applicable to Shivi for AY 2022-23 on gift of 3 lakh by Shalv since it was received by a 'relative'.

**Note 5 – Interest from FD with SBI**

- This is a case of cross transfer. The cross transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise. Thus, income from assets transferred (to the extent of Rs. 5 lakh) will be clubbed in hands of deemed transferor.
- Interest on Rs. 5 lakh @ 10% p.a. for 6 months = 25,000. Interest arising to Shivi of Rs. 25,000 is clubbed with the income of Shalv u/s 64(1)(iv). Interest arising to the spouse of Shivam of Rs. 25,000 is clubbed with the income of Shivam u/s 64(1)(iv).
- Interest on Rs. 2 lakh @ 10% p.a. for 6 months = 10,000. Taxable in the hands of Shivi. It is not a part of cross transfer.
- Section 56(2)(x) is not applicable in the hands of recipients since gifts are received from 'relative'.

# MCQ

## INCOME OF MINOR CHILD

**M1.** Shaivi, aged 15 years, earns income of Rs. 20,000 during the year. In which of the following cases will income not be assessed in her hands?

- (a) She suffers from disability specified u/s 80U (b) Income is earned from doing manual work  
 (c) Income is earned on account of her skill, talent, knowledge or experience (d) Income is earned by investing money

**M2.** Rahul, aged 12 years, earns income of Rs. 50,000 during the year as interest on bank deposits. In which of the following cases will income be assessed in his hands?

- (a) Rahul is a step child (b) Both parents are not alive  
 (c) None of the parents have income exceeding basic exemption limit (d) Bank deposits were made out of prize won in a quiz competition

**M3.** Exemption u/s 10(32) is allowed per child per year whose income is clubbed u/s 64(1A).

- (a) True (b) False

**M4.** Income of minor child arising on account of his skill and talent is not clubbed with the income of parent. If such income is invested, subsequent income is also not clubbed with the income of parent.

- (a) True (b) False

**M5.** Ruhi, aged 17 years, was adopted by her parents and got married on 1.10.2022. During the PY 2022-23, she got dividend from shares of a foreign company of Rs. 1,400 and won a prize of Rs. 20,000 from a general knowledge competition. Her father and mother have total income of Rs. 3 lakh each, without including her income. This is the first year when Ruhi earned any income. How will the income be assessed to tax?

- (a) 21,400 is assessed in the hands of Ruhi (b) 20,000 is assessed in the hands of Ruhi and no income is clubbed with the income of any parent
- (c) 20,000 is assessed in the hands of Ruhi and 1,400 can be clubbed with the income of either parent (d) 21,400 can be clubbed with the income of either parent

**M6.** The minor son of Ramesh earned interest of Rs. 1,000 from bonds, dividend of Rs. 1,500 from shares of a company and Rs. 1,200 as interest on bank deposits. Ramesh claimed that nothing is to be clubbed with his income after giving exemption u/s 10(32) to each item of income. Is Ramesh correct?

- (a) Yes (b) No

**M7.** Mr. Zero, directed his bank to transfer interest of Rs. 30,000 on fixed deposits held by him, to the account of his son Mr. Hero (21 years). How will this income be taxable?

- (a) 30,000 in the hands of Mr. Hero (b) 28,500 in the hands of Mr. Hero
- (c) 28,500 in the hands of Mr. Zero (d) 30,000 in the hands of Mr. Zero

**M8.** Raja is the minor son of Rocky. During PY 2022-23, he earned following incomes: Interest of Rs. 10,000 from Post Office Time Deposit made out of Rs. 2 lakh gifted by the spouse of Rocky's brother on 15.5.2022; dividend of Rs. 15,000 from shares purchased in DEF Ltd. out of Rs. 3 lakh gifted by close friend of Rocky's spouse on 15.4.2022. Amount assessed for PY 2022-23 will be:

- (a) 25,000 clubbed with the income of Rocky (b) 5,25,000 clubbed with the income of Rocky
- (c) 3,25,000 clubbed with the income of Rocky (d) 3,23,500 clubbed with the income of Rocky

**M9.** Suman, aged 16 years, received scholarship of Rs. 50,000 during the PY 2022-23 to meet the cost of her education. Which of the following is correct?

- (a) Taxable in the hands of Suman (b) Included in the income of parent whose income before clubbing of such income is greater
- (c) Income is completely exempt from tax (d) Income is clubbed with father's income

**M10.** On 20.10.2022, Sweety (minor child) gets a gift of Rs. 20 lakh from her father's friend. On the same day, the amount is deposited in her bank account. On the said deposit, interest of Rs. 12,000 was earned during the PY 2022-23. In whose hands is income of Sweety taxable? Also, compute the amount of income taxable.

- (a) 20,10,500 is taxable in the hands of father (b) 20,12,000 is taxable in the hands of father
- (c) 20,10,500 is taxable in the hands of mother or father, whose income, before such clubbing, is greater (d) 20,12,000 is taxable in the hands of mother or father, whose income, before such clubbing, is greater

**M11.** Megha (16 years) received gift of Rs. 10 lakh from her grandfather on her birthday on 1.6.2021. She utilized Rs. 3 lakh to purchase shares of BCD Ltd. on 1.9.2021 which she sold on 1.6.2022 for Rs. 4 lakh. BCD Ltd. declared dividend on 10.4.2022 and she received Rs. 5,000 in this respect. She purchased debentures of JKL Pvt. Ltd. on 1.4.2022 by utilizing Rs. 5 lakh on which she received interest of Rs. 40,000 during the PY. She lent the amount of Rs. 40,000, earned as interest, to her friend who paid her interest of Rs. 5,000. She utilized the balance Rs. 2 lakh to purchase shares of JJ Ltd. JJ Ltd. issued 1,000 bonus shares to her on 1.5.2022 which she sold for Rs. 200 per share on 1.7.2022. Compute the amount of income to be clubbed with the income of her parent u/s 64(1A) for AY 2023-24.

- (a) 43,500 (b) 1,43,500
- (c) 1,48,500 (d) 3,48,500

**M12.** Divyansh (14 years) won the first prize of Rs. 1 lakh in National Talent Search on 1.4.2022. He invested this money in the business of his friend from which he received profit share of Rs. 50,000 on 1.10.2022. He deposited this profit share in bonds of a closely held company which generated interest income of Rs. 3,000 for the previous year. His father and mother earned salary income of Rs. 2 lakh and Rs. 3 lakh during the year, respectively (computed). Divyansh's father gifted Rs. 15 lakh to Divyansh's mother on 10.4.2022 which she lent to a colleague who paid Rs. 1.5 lakh as interest for the year. Compute taxable income of Divyansh and his parents for AY 2023-24.

- (a) Divyansh 1,00,000; Father 4,01,500; Mother 3,00,000 (b) Divyansh 1,53,000; Father 3,48,500; Mother 3,00,000
- (c) Divyansh 1,03,000; Father 3,98,500; Mother 3,00,000 (d) Divyansh 1,03,000; Father 2,00,000; Mother 4,98,500

#### INCOME OF SPOUSE FROM CONCERN IN WHICH INDIVIDUAL HAS SUBSTANTIAL INTEREST

**M13.** Salary received by the unqualified spouse of an individual from a concern is not clubbed with the income of such individual if:

- (a) He holds 20% or more share of equity or profits in the concern throughout the PY (b) He holds 20% or more share of equity or profits in the concern at any time during the PY
- (c) He and his relatives hold 20% or more share of equity or profits in the concern at any time during the PY (d) His relatives (not him) hold 20% or more share of equity or profits in the concern throughout the PY



**M14.** Salary received by the spouse of an individual is clubbed with the income of such individual in which of the following cases?

- (a) Spouse is qualified for the job and individual holds 20% equity shares in the concern  
 (b) Spouse is not qualified for the job and individual holds 20% equity shares in the concern only for a day during the PY  
 (c) Spouse is qualified for the job and individual holds 15% equity shares in the concern  
 (d) Spouse is not qualified for the job and individual holds 15% equity shares in the concern

**M15.** During the PY 2022-23, the spouse of Charu received salary of Rs. 50,000 per month, as legal manager, from a law firm in which Charu held 10% profit share. Her spouse is a qualified dentist and runs his own clinic. On 1.3.2023, Charu's brother was admitted as a partner with the firm with 10% profit share. Determine taxability of salary income for AY 2023-24.

- (a) 5,50,000 assessed in the hands of spouse  
 (b) 5,50,000 clubbed with the income of Charu's brother  
 (c) 5,50,000 clubbed with the income of Charu  
 (d) 6,00,000 assessed in the hands of spouse

**M16.** Romil, a doctor, gifted Rs. 10 lakh to his spouse, Damini, on 1.4.2022 from which she purchased 15% equity shares in BCD Pvt. Ltd. Romil got financial advisory consulting contracts from BCD Pvt. Ltd. for which he was paid remuneration of Rs. 3 lakh on 1.10.2022. Romil used a portion of this money to acquire 10% equity shares of BCD Pvt. Ltd. on 15.3.2023. Determine taxability of these amounts for AY 2023-24.

- (a) 3 lakh taxable in the hands of Damini  
 (b) 13 lakh taxable in the hands of Damini  
 (c) 3 lakh taxable in the hands of Romil  
 (d) 2.5 lakh taxable in the hands of Damini

**M17.** During the year 2022-23, Sweety (spouse of Veer) received commission of 1% on turnover achieved by CD Pvt. Ltd. of Rs. 10 crore on account of marketing and sales strategic support provided by her. Sweety is an MBA in marketing. Veer held 25% equity shares in the company as on 1.4.2022. He transferred 10% holding to his major son and another 10% to his friend, on 1.6.2022. Determine taxability of commission for AY 2023-24.

- (a) 10 lakh assessed in hands of Veer  
 (b) 10 lakh assessed in hands of son  
 (c) 10 lakh assessed in hands of Sweety  
 (d) 10 lakh assessed in hands of son and friend, equally

**M18.** Raja and Rani, spouses, were employed with BCD (P) Ltd on annual salary income of Rs. 2 lakh each (computed), on the post of tax manager. Raja and Rani were doctors and operated their clinic from which they earned professional income of Rs. 3 lakh and Rs. 4 lakh, respectively (computed). Both of them had individually acquired 15% equity shares in the company on 1.6.2021. However, while Raja transferred 10% of his holding to his minor son on 1.1.2022, Rani transferred 10% of her holding to her friend on 1.3.2022. Taxable income of Raja and Rani for AY 2023-24 is:

- (a) Raja 5 lakh; Rani 6 lakh  
 (b) Raja 7 lakh; Rani 4 lakh  
 (c) Raja 8 lakh; Rani 3 lakh  
 (d) Raja 3 lakh; Rani 8 lakh

**M19.** Jiya has earned remuneration of Rs. 3 lakh during the PY 2022-23 from a partnership firm in which her brother is a partner with 25% profit share. Remuneration was received for an assignment for which she is not qualified. Remuneration will be assessed in the hands of:

- (a) Jiya  
 (b) Jiya's spouse  
 (c) Jiya's brother  
 (d) Equally amongst Jiya, her spouse and her brother

#### INCOME FROM ASSETS TRANSFERRED TO SPOUSE OR SON'S WIFE

**M20.** For clubbing of income u/s 64(1)(iv) or 64(1)(vi), it is sufficient if the relation of spouse or son's wife subsists at the time of transfer of asset.

- (a) True  
 (b) False

**M21.** Yuvraj, gifted Rs. 50 lakh to his spouse on 1.4.2022. Out of this money, she invested Rs. 30 lakh in fixed deposits with Canara Bank from which she earned interest of Rs. 3 lakh for the previous year. She further invested the balance of Rs. 20 lakh to purchase shares of CDF Ltd on 1.10.2022. She received Rs. 20,000 as dividend on 1.1.2023. She was allotted 100 bonus shares in the company on 1.2.2023 which she sold for Rs. 1 lakh on 15.3.2023. Compute the amount to be included in the income of Yuvraj and his spouse for AY 2023-24.

- (a) Yuvraj 4,20,000; Spouse Nil  
 (b) Yuvraj Nil; Spouse 4,20,000  
 (c) Yuvraj 3,20,000; Spouse 1,00,000  
 (d) Yuvraj 1,00,000; Spouse 3,20,000

**M22.** During the PY 2022-23, Sona acquired jewellery from her friend for Rs. 1 lakh (market value Rs. 5 lakh). Being a law graduate, she worked as a lawyer with a law firm from which she earned salary of Rs. 50,000 per month. Her spouse was a partner in this firm with 30% profit share. On 1.6.2022, her spouse gifted her Rs. 20 lakh which she used to purchase a flat for self-residence. During the year, she took a loan from bank for undertaking certain repairs to the flat for which interest till 31.3.2023 came to Rs. 25,000. Compute the amount to be included in the income of Sona and her spouse for AY 2023-24.

- (a) Sona 4,50,000; spouse 5,25,000  
 (b) Sona 9,25,000; spouse Nil  
 (c) Sona 5,50,000; spouse (-) 25,000  
 (d) Sona 9,50,000; spouse (-) 25,000

**M23.** Manjari gifted a property to her daughter-in-law on 1.4.2022. Income from property for the year (accruing evenly) was Rs. 1,00,000. Her daughter-in-law was divorced on 30.9.2022 and she sold the property on 31.3.2023 on which capital gain was computed at Rs. 30,000. Compute the amount to be included in the income of Manjari and her daughter-in-law for AY 2023-24.

- |  |  |
|--|--|
| (a) Manjari 50,000; daughter-in-law 80,000 | (b) Manjari 1,00,000; daughter-in-law 30,000 |
| (c) Manjari 1,30,000; daughter-in-law Nil  | (d) Manjari Nil; daughter-in-law 1,30,000    |

**M24.** Rohit gifted Rs. 20 lakh to his brother on 1.5.2022 with instructions to deposit the money in bank fixed deposits and transfer the interest income to his daughter-in-law. In whose hands will interest be taxable?

- |                     |                             |
|---------------------|-----------------------------|
| (a) Rohit's brother | (b) Rohit's daughter-in-law |
| (c) Rohit           | (d) Rohit's son             |

**M25.** Badal gifted a house property valued at Rs. 50 lakh to his wife, Rani, who in turn gifted the same to her daughter-in-law Shamili shortly after. The house was let out at Rs. 25,000 per month throughout the PY 2022-23. Compute income from house property for AY 2023-24. In whose hands will this income be taxable?

- |                                   |                                      |
|-----------------------------------|--------------------------------------|
| (a) 3 lakh in the hands of Badal  | (b) 2.1 lakh in the hands of Badal   |
| (c) 2.1 lakh in the hands of Rani | (d) 2.1 lakh in the hands of Shamili |

**M26.** Bobby gifted a bungalow to his wife, Sheena, and a flat to his daughter-in-law, Beena. Both the properties were let out. Which of the following statements is correct?

- |  |  |
|--|--|
| (a) Income from both properties is clubbed in the hands of Bobby | (b) Income from property gifted to wife alone is clubbed in the hands of Bobby                                       |
| (c) Bobby is deemed owner of property gifted to Sheena and Beena | (d) Bobby is deemed owner of property gifted to Sheena. Income from property gifted to Beena is clubbed in his hands |

**M27.** Rhea received gift of Rs. 10 lakh from her spouse on 15.4.2022. She invested this money, along with her own savings of Rs. 20 lakh to start a business on 1.6.2022. She incurred a loss of Rs. 1,20,000 in the business for PY 2022-23. She wrote a book during the year from which royalty income of Rs. 3,00,000 was earned. Compute the amount to be included in the income of Rhea and her spouse for AY 2023-24.

- |                               |  |
|-------------------------------|--|
| (a) Rhea 1,80,000; spouse Nil | (b) Rhea 2,20,000; spouse (-) 40,000   |
| (c) Rhea Nil; spouse 1,80,000 | (d) Rhea (-) 1,20,000; spouse 3,00,000 |

**M28.** On 1.3.2022, Shobhit became a partner in R&S partnership firm, with 50% profit share, by bringing in Rs. 10 lakh as his capital contribution. This money was gifted by his spouse on 1.2.2022. For the PY 2022-23, he received interest on capital of Rs. 1 lakh and his share in profit of Rs. 2 lakh. Compute the amount to be included in the income of Shobhit and his spouse for AY 2023-24.

- |                                   |                                   |
|-----------------------------------|-----------------------------------|
| (a) Shobhit 2 lakh; spouse 1 lakh | (b) Shobhit 50,000; spouse 50,000 |
| (c) Shobhit Nil; spouse 1 lakh    | (d) Shobhit 1 lakh; spouse 2 lakh |

**M29.** Rajshri commenced her business on 1.9.2022 with Rs. 10 lakh (out of which Rs. 5 lakh was loan taken from bank). Her spouse gifted her Rs. 5 lakh on 1.10.2022 which she invested in the business on the same day. The business generated a profit of Rs. 90,000 for the PY 2022-23. Compute the amount to be included in the income of Rajshri and her spouse for AY 2023-24.

- |                                   |                                   |
|-----------------------------------|-----------------------------------|
| (a) Rajshri Nil, spouse 90,000    | (b) Rajshri 45,000, spouse 45,000 |
| (c) Rajshri 60,000, spouse 30,000 | (d) Rajshri 90,000, spouse Nil    |

**M29a.** Mr. Z gifted Rs. 5 lakh each to Mrs. Z, his spouse, and Master Z, his son aged 25 years, on 1.4.2020. They invested this amount on 1.4.2020 in 10% debentures of BCD Ltd. The interest accrues annually and is reinvested. Compute the amount taxable in the hands of Mrs. Z for AY 2023-24.

- |            |            |
|------------|------------|
| (a) 50,000 | (b) 60,500 |
| (c) 10,500 | (d) Nil    |

**M29b.** Sakshi is a partner in ABC & Co, partnership firm. Her capital contribution in the firm is Rs. 8 lakh which includes Rs. 2 lakh gifted by her spouse on 1.1.2022. She made additional capital contribution of Rs. 4 lakh on 1.4.2022 out of gift made by her spouse. The firm paid her interest on capital of 1,20,000 for the PY 2022-23. This amount was fully allowed as deduction in the hands of the firm. She also received her share of profit in the firm of Rs. 2,50,000. Determine the amount to be included in the income of Sakshi and her spouse for the AY 2023-24.

- |  |  |
|--|--|
| (a) 60,000 for Sakshi; 60,000 for spouse     | (b) 3,10,000 for Sakshi; 60,000 for spouse |
| (c) 1,55,000 for Sakshi; 1,55,000 for spouse | (d) 1,55,000 for Sakshi; nil for spouse    |

**M29c.** Mr. B is a partner in PQR & Co, a partnership firm, having his capital contribution of Rs. 10,00,000. Mrs. B gifted Rs. 6,00,000 to Mr. B on 31.3.2022. Mr. B invested Rs. 5,00,000 from this amount as his additional capital contribution in PQR & Co. on 10.4.2022. He further infused Rs. 3,00,000 as his capital contribution (Rs. 1,00,000 gifted again by Mrs. B and Rs. 1,00,000 out of his own funds) on 15.6.2022. During the year, Mr. B received interest on capital of 1,50,000, salary of Rs. 2,40,000 and share of profit of Rs. 1,20,000 from the firm. Determine the amount includible in the income of Mrs. B for the AY 2023-24.

- (a) 1,00,000 (b) 2,60,000  
(c) Nil (d) 3,40,000

### CONVERSION OF SELF-ACQUIRED PROPERTY INTO PROPERTY OF HUF

**M30.** If a member of HUF transfers his property to the HUF without adequate consideration, the income from such property is:

- (a) Taxable in the hands of HUF (b) Taxable in the hands of the transferor  
(c) Clubbed equally with the incomes of all members (d) Clubbed with the income of transferor to the extent of his share in HUF; balance is taxable in the hands of HUF

**M31.** If a HUF is partitioned, subsequent to a member of HUF converting his own property into the property of HUF, income from such property, after the partition, is included in the total income of such member to the extent:

- (a) Received by self and spouse (b) Received by self  
(c) Received by self and minor child (if his total income, before clubbing u/s 64(1A), is greater than that of spouse) (d) Received by self, spouse and minor child (if his total income, before clubbing u/s 64(1A), is greater than that of spouse)

**M32.** On 1.7.2022, Saira transferred gold jewellery of market value Rs. 10 lakh to the HUF for a consideration of Rs. 10 lakh (capital gain computed Rs. 1 lakh). HUF comprised herself, her spouse and her minor son as members. On 1.10.2022, the HUF sold the jewellery for Rs. 15 lakh and invested the proceeds in fixed deposits with ICICI Bank. Interest from fixed deposits for the PY 2022-23 was Rs. 1 lakh. Compute the amount to be included in the income of these persons for AY 2023-24.

- (a) Saira 1,50,000; HUF 5,00,000; Spouse 25,000 (b) Saira 1,00,000; HUF 6,00,000  
(c) Saira 1,48,500; HUF 5,00,000 lakh; Spouse 25,000 (d) Saira 2,98,500; Spouse 2,00,000

**M33.** On 1.4.2022, Shan (Karta of his HUF comprising of his spouse and minor daughter), gifted Rs. 15 lakh to the HUF. The HUF purchased a property from this amount on which income for PY 2022-23 (accruing evenly across the year) was Rs. 1,20,000. The HUF was partitioned on 30.9.2022 and all assets were distributed equally. Shan's spouse has no other income during the year. Compute the amount to be included in the income of these persons for AY 2023-24 in respect of income from such property.

- (a) Shan 1,18,500 (b) Shan 98,500; spouse 20,000  
(c) Shan 80,000; spouse 20,000, daughter 20,000 (d) Shan 1,00,000; daughter 20,000

### CROSS TRANSFERS

**M34.** Income arising in the case of cross transfer of assets is included in the income of 'deemed transferors' and not the recipients.

- (a) True (b) False

**M35.** On 1.4.2022, Mr. B gifted Rs. 1.5 lakh to Mrs. C (spouse of Mr. C, his brother). Mr. C, in turn, gifted Rs. 1 lakh to Master B (minor child of Mr. B). On the same day, both recipients invested the money in instruments generating interest of 10% p.a. Income of Mr. B is higher than Mrs. B (without considering interest income). In this case:

- (a) Mr. B 8,500; Mr. C 15,000 (b) Mr. B 15,000; Mr. C 10,000  
(c) Mr. B 10,000; Mr. C 10,000; Mrs. C 5,000 (d) Mr. B 8,500; Mr. C 10,000; Mrs. C 5,000

### GENERAL PROVISIONS OF CLUBBING

**M36.** Only income is liable to be clubbed under the provisions of section 64. Losses are to be ignored.

- (a) True (b) False

**M37.** Income of the following nature is not liable to be clubbed:

- (a) Salary (b) Capital gain  
(c) Income from other sources (d) Exempt income

**M38.** Which of the following types of income can be clubbed under section 64(1)(iv) in the hands of spouse?

- (a) Asset gifted was converted to a different form of asset. Income from such converted asset. (b) Income from accretion of asset that is gifted  
(c) Income arising from investment of income from asset that is gifted (d) Income from asset that is transferred at market value

**M39.** Sana's spouse (61 years and resident in India) gifted Rs. 60 lakh to Sana (59 years and resident in India) who earned interest of Rs. 4,50,000 during the PY 2022-23 by investing such amount in corporate deposits. The intent for the gift was to reduce tax liability by availing rebate of section 87A in the hands of Sana. Sana's spouse has income from pension of Rs. 6,00,000 (computed). Sana does not have any other income. Both have decided not to opt for section 115BAC. Tax liability for AY 2023-24 will be:

- (a) Sana 44,200; Spouse 31,200 (b) Sana Nil; Spouse 1,30,000  
(c) Sana Nil; Spouse 31,200 (d) Sana 19,99,140; Spouse 31,200

**M40.** Income arising from transfer of an asset is liable to be included in the income of transferor in which of the following cases:

- (a) There is transfer of income without transfer of assets from which the income arises  
 (b) Transfer of asset is not revocable during the lifetime of transferee  
 (c) Transfer of asset is irrevocable  
 (d) Transfer of asset is made on 31.3.1961 and is revocable after 10 years

**M41.** Ram owns 500, 15% debentures of Reliance Industries Ltd. of Rs. 500 each. Annual interest of Rs. 37,500 was declared on these debentures for PY 2022-23. Ram transferred the interest income to his friend Shyam, without transferring the ownership of debentures. While filing his return for AY 2023-24, Shyam showed Rs. 37,500 as his income from debentures. As the tax advisor of Shyam, do you agree with tax treatment adopted by him?

- (a) Yes, since interest income is transferred to Shyam  
 (b) No, since Ram has not transferred debentures  
 (c) Yes, if debentures are not transferred, interest income can be declared by any of Ram or Shyam  
 (d) No, since Shyam should have shown this income as income received from Ram and not as income earned on debentures

**M42.** Sehar transferred certain plant and machinery, owned by him, to his friend with a stipulation that he would reacquire the assets as and when he needs. The transfer was termed as irrevocable by Sehar in the agreement. Rental income earned by his friend from the assets for PY 2022-23 was Rs. 1 lakh. The assets were not reacquired by Sehar during the previous year. Determine the amount included in the income of Sehar and his friend for AY 2023-24.

- (a) Friend 1 lakh  
 (b) Sehar 50,000; friend 50,000  
 (c) Sehar 1 lakh  
 (d) Sehar 1 lakh or friend 1 lakh as per their discretion

## Answer Key for MCQs

M1 D; M2 B; M3 A; M4 B; M5 B; M6 B; M7 D; M8 D; M9 C; M10 C; M11 D; M12 A; M13 D; M14 B; M15 C; M16 A; M17 C; M18 D; M19 A; M20 B; M21 C; M22 D; M23 A; M24 C; M25 B; M26 D; M27 B; M28 C; M29 D; M29a C; M29b A; M29c C; M30 B; M31 D; M32 B; M33 A; M34 A; M35 D; M36 B; M37 D; M38 A; M39 B; M40 A; M41 B; M42 C

## Hints to MCQ answers

**M1.** Clubbing u/s 64(1A) is not applicable to cases specified in Options A to C.

**M2.** Income will be liable to be clubbed u/s 64(1A) in cases specified in Options A, C, D.

**M4.** Income from investment is clubbed u/s 64(1A).

**M5.** 64(1A) applies to a married minor daughter and adopted child. Prize is not clubbed as it is on account of her skill/talent. Dividend clubbed = 1,400 – 1,500 exempt u/s 10(32) = Nil.

**M6.** Exemption u/s 10(32) is provided against the aggregate amount of income of the minor child whose income is clubbed; not on each item of income.

**M7.** Clubbing u/s 64(1A) is not applicable as son is major. Clubbing u/s 60 is applicable as income is transferred without transfer of asset. Hence, exemption u/s 10(32) is not available.

**M8.** Income clubbed with the income of Rocky u/s 64(1A) = Interest on POTD 10,000 + Gift from spouse of father's brother NIL u/s 56(2)(x) as received from a relative + Dividend 15,000 + Gift by close friend of mother taxable u/s 56(2)(x) 3,00,000 — Exempt u/s 10(32) 1,500 = 3,23,500

**M9.** Exempt u/s 10(16) (refer para 30 of Concepts Book)

**M10.** Income to be clubbed u/s 64(1A) = 20,00,000 gift from father's friend u/s 56(2)(x) + 12,000 interest – 1,500 exempt u/s 10(32) = 20,10,500

**M11.** Income to be clubbed u/s 64(1A) = STCG on sale of shares 1,00,000 (4,00,000 – 3,00,000) + Dividend 5,000 + Interest on debentures 40,000 + Interest on loan 5,000 + STCG on bonus shares 2,00,000 (2,00,000 FVC – NIL COA) - 1,500 exempt u/s 10(32) = 3,48,500

**M12.** Taxable income of Divyansh = Prize of 1,00,000 as it is on account of skill/talent. // Income of Divyansh to be clubbed u/s 64(1A) = Business profit 50,000 + Interest 3,000 = 53,000. // Total income before clubbing u/s 64(1A): Father = 2,00,000 Salary + 1,50,000 interest clubbed u/s 64(1)(iv) = 3,50,000; Mother = 3,00,000. // Income of Divyansh clubbed with income of father (as his total income, before such clubbing, is greater) = 53,000 – 1,500 exempt u/s 10(32) = 51,500. // Taxable income of father = 3,50,000 + 51,500 = 4,01,500.

**M13.** Individual does not have substantial interest in Option D as he does not hold any share of equity or profits in the concern. Hence, salary is not clubbed u/s 64(1)(ii).

**M14.** Income is clubbed u/s 64(1)(ii) as individual has substantial interest at any time during the PY and spouse is not qualified.

**M15.** Charu has substantial interest in the firm (20% equity shareholding of self and brother (relative)) and spouse is not qualified. Salary clubbed u/s 64(1)(ii) = 6,00,000 – 50,000 standard deduction u/s 16 = 5,50,000

**M16.** Income taxable in the hands of Damini = Gift from Romil NIL as not taxable u/s 56(2)(x) since received from relative (spouse) + 3 lakh remuneration of Romil clubbed u/s 64(1)(ii) as Damini has substantial interest in BCD Pvt. Ltd. (owns 25% equity shares with Romil (relative) at any time during the PY) and Romil is not qualified = 3 lakh.

**M17.** Sweety is qualified and, hence, commission is not to be clubbed u/s 64(1)(ii) even if Veer has substantial interest in CD Pvt. Ltd.

**M18.** Both Raja and Rani are unqualified for the job of tax manager. Equity shareholding in the concern during PY 2022-23 for both of them = Raja 5% + minor son (relative) 10% + Rani 5% = 20%. Thus, both have substantial interest.

Salary of Raja is clubbed u/s 64(1)(ii) with the income of Rani as her total income (excluding salary) of 4 lakh is greater.

Raja's income = 3 lakh professional income. Rani's income = 2 lakh salary + 2 lakh salary clubbed + 4 lakh professional income = 8 lakh.

**M19.** Income is not clubbed u/s 64(1)(ii) as spouse of Jiya does not have substantial interest in the firm.

**M20.** Such relation should subsist at the time of transfer of asset as well as arising of income.

**M21.** Income of Yuvraj = FD interest clubbed u/s 64(1)(iv) 3,00,000 + Dividend clubbed u/s 64(1)(iv) 20,000 = 3,20,000. // Income of spouse = Gift of money from spouse NIL u/s 56(2)(x) as received from a relative + STCG on sale of bonus shares of 1,00,000 (not clubbed with income of Yuvraj u/s 64(1)(iv) as it is accretion to the assets transferred) = 1,00,000

**M22.** Income of Sona = Jewellery received from friend without adequate consideration taxable u/s 56(2)(x) 4,00,000 (FMV – Consideration) + Salary 5,50,000 (6,00,000 – 50,000 standard deduction u/s 16) (it is not clubbed with the income of spouse u/s 64(1)(ii) as she is qualified) + Gift of money from spouse is not taxable u/s 56(2)(x) as it is received from a relative = 9,50,000. /// Income of spouse = Income under the head IHP clubbed with his income u/s 64(1)(iv) = Loss of 25,000 on account of interest on loan. He is not deemed owner of house u/s 27(i) as the house is not gifted per se.

**M23.** Income of Manjari = Income till divorce is clubbed u/s 64(1)(vi) = 50,000. /// Income of daughter-in-law = Gift of property not taxable u/s 56(2)(x) as it is received from a relative + Income after divorce is not clubbed with income of Manjari u/s 64(1)(vi) 50,000 + Capital gain arising after divorce is not clubbed with income of Manjari u/s 64(1)(vi) 30,000 = 80,000.

**M24.** Asset is transferred to a person without adequate consideration and income therefrom arises for the benefit of son's wife. Income is clubbed u/s 64(1)(viii) to the extent it is for the benefit of son's wife.

**M25.** Badal is deemed owner u/s 27(i) as house is transferred to spouse without adequate consideration. Gift by Rani to daughter-in-law is covered u/s 64(1)(iv) as the transfer is without adequate consideration. Alternatively, it can also be said that Badal has transferred the house indirectly to son's wife, via his spouse. In any case, income is to be clubbed with the income of Badal. Income = 3,00,000 annual value – 90,000 standard deduction = 2,10,000

**M26.** Deemed owner of property u/s 27(i) as transfer is to spouse without adequate consideration. Transfer to daughter-in-law is not covered u/s 27(i) but income is to be clubbed u/s 64(1)(vi).

**M27.** Money transferred by spouse without adequate consideration is invested by Rhea in business. Income from business to be clubbed with income of spouse u/s 64(1)(iv) = Loss of 1,20,000 × (10 lakh value of gift invested on 1.6.2022 / 30 lakh total investment in business on 1.6.2022) = Loss of 40,000. // Income of Rhea = Royalty of 3,00,000 – Loss from business of 80,000 not clubbed as aforesaid = 2,20,000

**M28.** Share of profit from firm is exempt u/s 10(2A). Money transferred by spouse is invested as capital contribution in the firm. Relatable interest will be clubbed with income of spouse u/s 64(1)(iv). // Income of spouse = 1 lakh of interest from the firm × (10 lakh gift invested as on 1.4.2022 / 10 lakh total investment as on 1.4.2022) = 1 lakh. // Income of Shobhit: Nil.

**M29.** Nothing is to be clubbed u/s 64(1)(iv) with the income of spouse as gift by spouse is not invested by Rajshri in the business as on the 1<sup>st</sup> day of the PY being 1.9.2022.

**M29a.** Interest accruing to son is not to be clubbed in the hands of either parent as he is major. Interest on 5 lakh accruing to Mrs. Z is to be clubbed in the hands of Mr. Z u/s 64(1)(iv). However, interest on interest will not be clubbed and will be taxable in the hands of Mrs. Z, as it is second-generation income.

PY	Principal for which interest is clubbed in the hands of Mr. Z	Principal for which interest is taxable in the hands of Mrs. Z	Interest clubbed in the hands of Mr. Z	Interest taxable in the hands of Mrs. Z	Opening balance	Closing balance
2020-21	500000	0	50000	0		550000
2021-22	500000	50000	50000	5000	550000	605000
2022-23	500000	105000	50000	10500	605000	665500

**M29b.** Amount gifted by spouse is invested as capital contribution in the firm. Interest receivable will be clubbed in the hands of spouse u/s 64(1)(iv). Clubbing = 1,20,000 interest × [Value of such investment as on 1.4.2022 of 6 lakh / Total investment by way of capital contribution as on 1.4.2022 of 12 lakh] = 60,000. Share of profit is exempt u/s 10(2A). Gift is not taxable u/s 56(2)(x) as it is received from relative.

**M29c.** Amount gifted by spouse is invested as capital contribution in the firm. Interest receivable will be clubbed in the hands of Mrs. B u/s 64(1)(iv). However, no amount is to be clubbed for AY 2023-24 as no such amount is invested in the firm as on 1.4.2022.

**M32.** Income of Saira = Capital gain of 1 lakh. // Income of HUF = STCG of 5 lakh (FVC of 15 lakh – COA of 10 lakh) + Interest of 1 lakh = 6 lakh. Section 64(2) is not applicable as transfer of jewellery by Saira to HUF is for adequate consideration.

**M33.** Money is gifted to HUF. Section 64(2) is applicable. // TILL PARTITION: Income of Shan = 60,000 taxable in his hands. // AFTER PARTITION: Income of Shan = 20,000 received by self + 20,000 received by spouse clubbed in his hands + 18,500 received by minor

daughter clubbed in his hands u/s 64(1A) after exempting 1,500 u/s 10(32) = 58,500. // Income to be included in the income of Shan = 1,18,500.

**M35.** It is a case of cross transfer. Income will be clubbed with the income of deemed transferors to the extent of cross transfer of Rs. 1 lakh. // Income clubbed with the income of Mr. B u/s 64(1A) = 10,000 Interest – 1,500 exempt u/s 10(32) = 8,500. // Income clubbed with the income of Mr. C u/s 64(1)(iv) = 10,000. // Income taxable in the hands of Mrs. C (beyond the extent of the cross transfer) = 5,000 (10% of 50,000).

**M38.** A. Change of identify does not impact clubbing. B. Accretion is not clubbed. C. Second-generation income is not clubbed. D. No clubbing as transfer is not for inadequate consideration.

**M39.** Total Income of Sana = Nil. Total income of spouse = 4,50,000 clubbed u/s 64(1)(iv) + 6,00,000 Pension = 10,50,000. Tax = 1,25,000 + 4% HEC of 5,000 = 1,30,000.

**M40.** A. Taxable in the hands of transferor u/s 60. B. Exception u/s 61. C. Transfer is not revocable. D. Exception u/s 61.

**M41.** Income is taxable in the hand of Ram u/s 60 as income is transferred without transfer of assets from which the income arises.

**M42.** Transfer is deemed to be revocable u/s 63 as it allows Sehar to reacquire the assets. Income is taxable in the hands of Sehar.



**Believe in yourself**

Powerful study material + Direct support from Sharad Sir + Tax Cruiser for inter-linking +  
TaxBook+ Tutorials + Updates & Tips = 100% Success!

Sign Up on [www.TaxWithSharad.com](http://www.TaxWithSharad.com)

## 11

# Set off & Carry Forward of Loss

## Build Your Confidence (BYC)

### INTER SOURCE ADJUSTMENT

**B1. Inter source adjustment** – Shri provides the following particulars of his income for AY 2023-24. Compute the income under each head after making inter source adjustment u/s 70.

Particulars	Rs.
Income from house property in Delhi	1,00,000
Loss from house property in Kolkata	(1,20,000)
Income from speculation business I	20,000
Loss from speculation business II	(10,000)
Loss from a specified business referred u/s 35AD	(25,000)
Income from the departmental store run by Shri	4,00,000
Loss from a real estate agency run by Shri	(4,30,000)
Long term capital gain	20,000
Long term capital loss	(10,000)
Short term capital loss	(5,000)
Income from activity of owning and maintaining race horses	30,000
Winning from horse races	25,000
Excess of expenditure over income from sub-letting of a property	(40,000)

#### Computation of income under each head after inter source adjustment

Particulars	Rs.	Rs.	Rs.
<b>Income from house property</b>			
Income from house property in Delhi		1,00,000	
Less: Loss from house property in Kolkata set off u/s 70		(1,20,000)	
Loss under the head 'Income from house property'			(20,000)
<b>Profits and gains of business or profession</b>			
Income from speculation business I	20,000		
Less: Loss from speculation business II (can be set off only against income from speculation business)	(10,000)		
		10,000	
Loss from a specified business referred u/s 35AD (can be set off only against income from specified business referred u/s 35AD)		-	
Income from the departmental store run by Shri	4,00,000		
Less: Loss from a real estate agency run by Shri set off u/s 70	(4,30,000)		
Set off u/s 70 against income from speculation business		(30,000)	
Loss under the head 'Profits and gains of business or profession'			(20,000)
<b>Capital gains</b>			
Long term capital gain		20,000	

Less: Long term capital loss set off u/s 70	(10,000)	
Less: Short term capital loss set off u/s 70	(5,000)	
Income under the head 'Capital gains'		5,000
<b>Income from other sources</b>		
Income from activity of owning and maintaining race horses	30,000	
Less: Income from sub-letting of a property: Set off u/s 70	(40,000)	
Loss under the head 'Income from other sources'		(10,000)
Winning from horse races (no loss can be set off against winnings)		25,000

### IINTER HEAD ADJUSTMENT

**B2. Inter head adjustment – Compute the total income of Jay for AY 2023-24 from the following particulars:**

Particulars	Rs.
Salary income (computed)	1,50,000
Loss from house property	2,50,000
Income from speculation business	10,000
Loss from wholesale business	(30,000)
Share of loss from partnership firm	(25,000)
Long term loss from sale of gold coins	(15,000)
Loss from authoring a book	(10,000)
Interest income of wife from money gifted to her	50,000
Permissible deduction under section 80C	10,000

Computation of total income of Jay for AY 2023-24

Particulars		Rs.
<b>Salary income (computed)</b>	1,50,000	
Less: Loss from house property set off u/s 71	(1,50,000)	
		Nil
<b>Profits and gains of business or profession:</b>		
Income from speculation business	10,000	
Less: Loss from wholesale business set off u/s 70	(30,000)	
	(20,000)	
Share of loss from partnership firm: Cannot be set off as it is exempt u/s 10(2A)	-	
		(20,000)
<b>Capital gains:</b>		
Long term loss from sale of gold coins: Cannot be set off against income of any other head u/s 71. Will be carried forward to next AY.		-
<b>Income from other sources:</b>		
Interest income of wife from money gifted to her: Clubbed u/s 64(1)(iv)	50,000	
Less: Loss from authoring a book set off u/s 70	(10,000)	
		40,000
Loss under head PGBP set off against income under the head IFOS u/s 71.		20,000
Less: Loss from house property set off u/s 71: Overall set off is limited to 2 lakh u/s 71. Unabsorbed loss of 80,000 (2,50,000 – 1,50,000 set off against salary – 20,000) will be carried forward to next AY.		(20,000)
<b>Gross total income</b>		<b>Nil</b>
Less: Deduction u/s 80C: Nil since gross total income is Nil		Nil
<b>Total income</b>		<b>Nil</b>

**B3. Inter head adjustment – Compute the total income of Mr. Sharma, aged 35 years, for AY 2023-24 from the following particulars:**

Particulars	Rs.
Salary (computed)	5,00,000
Loss from house property	(2,50,000)



Long term capital gain from sale of house	2,50,000
Long term capital loss from sale of equity shares (STT paid on purchase and sale)	(2,00,000)

■ **Computation of total income of Mr. Sharma for AY 2023-24**

Particulars	Rs.	Rs.
Salary (computed)	5,00,000	
Less: Loss from house property set off u/s 71 (see note)	(1,50,000)	
		3,50,000
Long term capital gain from sale of house	2,50,000	
Less: Long term capital loss u/s 112A set off u/s 70	(2,00,000)	
	50,000	
Less: Loss from house property set off u/s 71	(50,000)	
		Nil
<b>Total income (comprising salary)</b>		<b>3,50,000</b>

Note: Loss can be set off up to Rs. 2 lakh. Since normal income in this case is taxable at 5% slab rate as against long term capital gain u/s 112 at 20%, it is more beneficial to set off loss from house property from long term capital gain first and balance from salary. Balance unabsorbed loss from house property of Rs. 50,000 (2,50,000 – 50,000 set off against LTCG – 1,50,000 set off against salary) will be carried forward to next year.

**B4. Inter head adjustment – CA2012(NOV) – Mr. Rahul, aged 61 years, gives the following information for the PY 2022-23:**

Particulars	Rs.
Loss from profession	(1,05,000)
Capital loss on sale of property – short term	(55,000)
Capital gains on sale of shares – long term	2,05,000
Loss in respect of self occupied property	(15,000)
Loss in respect of let out property	(30,000)
Share of loss from firm	(1,60,000)
Income from card games	55,000
Winning from lotteries	1,00,000
Loss from horse races in Mumbai	(40,000)
Investment in infrastructure bonds	21,000
Medical insurance premium paid by cheque	18,000

Compute the total income for AY 2023-24.

■ **Computation of total income for AY 2023-24**

Particulars	Rs.	Rs.
<b>Income from house property</b>		
Loss from house property (15,000 + 30,000)		(45,000)
<b>Profits and gains of business or profession</b>		
Loss from profession	(1,05,000)	
Share of loss from firm: Not allowed to be set off since share of profit is exempt u/s 10(2A)	-	
		(1,05,000)
<b>Capital gains</b>		
Long term capital gain on sale of shares	2,05,000	
Less: Short term capital loss on sale of property: Set off u/s 70	(55,000)	
		1,50,000
Set off loss from house property and loss from profession u/s 71 against long term capital gain		Nil
<b>Income from other sources</b>		
Income from card games	55,000	
Winning from lotteries	1,00,000	
Loss from horse races: Cannot be set off or carried forward	-	
		1,55,000

<b>Gross total income</b>		<b>1,55,000</b>
Less: Deduction under Chapter VIA for investment in infrastructure bonds u/s 80C and medical insurance premium u/s 80D (not allowed from income from card games and winning from lotteries)		-
<b>Total income</b>		<b>1,55,000</b>

### CARRY FORWARD AND SET OFF & COMPREHENSIVE QUESTIONS

**B5. Carry forward – 73A** – Solve BYC Question Nos. B66 and B67 of PGBP Chapter.

**B6. Return of loss – 80 – CA2021(JULY)** – Enumerate the cases where a return of loss has to be filed on or before the due date specified u/s 139(1) for carry forward of the losses. Also enumerate the cases where losses can be carried forward even though the return of loss has not been filed on or before the due date. – See para 191 of Concepts Book.

**B7. Return of loss – 80 – CA2015(MAY)** – Explain the term 'return of loss'. Can any loss be carried forward even if return of loss has not been filed as required? – See para 191 of Concepts Book

**B8. Return of loss – 80 – CA2014(NOV)** – Filing of return of income on or before the due date is necessary for carry forward of losses. Discuss the correctness of this statement. - See para 191 of Concepts Book

**B9. Return of loss – CA2017(NOV) (modified)** – Prakash furnishes you the following details in respect of the FY 2022-23 (computed under the Act):

1. Loss from the business carried on by him as a proprietor: Rs. 11,20,000.
2. Unabsorbed depreciation: Rs. 4,80,000.
3. Loss from house property: Rs. 2,50,000.

The due date for filing the return for Prakash was 31.7.2023 u/s 139(1). However, he filed the return on 29.9.2023. Discuss with reference to the relevant provisions of the Act, if the losses and deductions can be carried forward by Prakash.

■ Since return of loss is furnished after the due date u/s 139(1), loss from business cannot be carried forward to AY 2024-25 u/s 72. However, this does not impact unabsorbed depreciation and loss from house property which can be carried forward u/s 32(2) and u/s 71B, respectively.

**B10. Carry forward – 32(2)** – Compute the total income of Ghanshyam from the following particulars for AY 2023-24:

Particulars	Rs.
Income from plying goods carriages as per books. He owns 10 vehicles with gross vehicle weight of 10 ton each.	7,50,000
Income from grocery retail business as per books. Turnover for the year was Rs. 1.5 crore out of which 50% was received by account payee cheque up to 31.3.2023, 40% was received by RTGS and NEFT from 1.4.2023 till 31.10.2023 (being the due date to file return) and rest was received by cash. He satisfies all eligibility conditions of section 44AD and he had opted for presumptive taxation for the AY 2022-23.	8,00,000
Brought forward depreciation from AY 2021-22 of retail business	50,000

■ Computation of total income for AY 2023-24 if income taken as per books

Particulars	Rs.
Income from plying goods carriages as per books (Note 1)	7,50,000
Income from grocery retail business as per books (Note 2)	8,00,000
Less: Brought forward unabsorbed depreciation set off u/s 32(2)	(50,000)
<b>Total income</b>	<b>15,00,000</b>

Computation of total income for AY 2023-24 if presumptive income taken

Particulars	Rs.
Income from plying goods carriages u/s 44AE (Note 1)	9,00,000
Income from grocery retail business u/s 44AD (Note 2)	9,30,000
Less: Brought forward unabsorbed depreciation u/s 32(2): Set off not possible as it is deemed to have been allowed (refer para 124 of Concepts Book)	-
<b>Total income</b>	<b>18,30,000</b>

**Note 1** - If Ghanshyam opts for section 44AE, presumptive income = 7,500 × 12 months × 10 vehicles = Rs. 9 lakh. If he does not opt, he can take the lower income as per books of Rs. 7.5 lakh provided books of accounts are maintained u/s 44AA and tax audit is done u/s 44AB.

**Note 2** - If Ghanshyam opts for section 44AD, presumptive income = 6% of 1.35 crore (90% of turnover received by a/c payee cheque, RTGS and NEFT up to due date to file return) + 8% of 0.15 crore received in cash = 8,10,000 + 1,20,000 = 9,30,000. If he

does not opt, he can take the lower income as per books of Rs. 8 lakh (further reduced by unabsorbed depreciation of Rs. 50,000). In such case, benefit of section 44AD will cease for the next 5 AYs. For the current AY and next 5 AYs, he will need to maintain books of account u/s 44AA and get tax audit done u/s 44AB if the total income exceeds the basic exemption limit.

**B11. Carry forward – CA2022(MAY) – Mr. Harsh furnishes the following details for the year ended on 31.3.2023:**

Particulars	Rs.
Salary received from partnership firm (the same was allowed to the firm)	8,50,000
Loss on sale of shares listed in stock exchange held for 18 months and the STT paid on the sale and acquisition	6,00,000
Long term capital gain on sale of land	5,00,000
Brought forward business loss of assessment year 2015-16	6,00,000
Loss of the specified business covered in Section 35AD	3,50,000
Loss from house property	2,50,000
Income from betting (gross)	50,000
Loss from card games	35,000

Compute the total income and show the item eligible for carry forward of Mr. Harsh for the assessment year 2023-24.

■  
Computation of total income of Mr. Harsh for AY 2023-24

Particulars	Rs.	Rs.
<b>Profits and gains of business or profession</b>		
Salary from partnership firm	8,50,000	
Less: Loss from house property set off u/s 71 up to Rs. 2,00,000	(2,00,000)	
	6,50,000	
Less: Brought forward business loss of AY 2015-16 set off u/s 72	(6,00,000)	
		50,000
<b>Capital gains</b>		
LTCG on sale of land u/s 112	5,00,000	
Less: Loss on sale of shares u/s 112A	(5,00,000)	
		-
<b>IFOS</b>		
Income from betting (gross): No loss can be set off against winnings	50,000	
Loss from card games: Can't be set off or carried forward	-	
		50,000
<b>Total income</b>		<b>1,00,000</b>

Statement of losses to be carried forward to AY 2024-25

Particulars	Rs.
Loss from specified business u/s 35AD can be set off only against such business u/s 73A. Hence, carried forward.	3,50,000
Loss from house property carried forward u/s 71B (2,50,000 – 2,00,000)	50,000
LTCG loss u/s 112A carried forward u/s 74 (6,00,000 – 5,00,000)	1,00,000

**B12. Carry forward – CA2018(MAY) – Mr. Jaji is a Chartered Accountant and his income from profession for the year 2022-23 is Rs. 10 lakh. He provides you with the following information for the year 2022-23.**

Particulars	Rs.
Income of minor son Biju from company deposit	1,50,000
Income of minor daughter Chitra (professional dancer)	20,00,000
Interest from SBI received by Chitra on deposit made in 2017 out of her special talent	20,000
Gift received by Chitra on 30.9.2022 from friends of Mr. Jaji on winning national award	45,000
Short term capital loss of Mr. Jaji	(6,00,000)
Long term capital gain of Mr. Jaji	4,00,000
Long term capital gain from shares (STT paid) of Mr. Jaji	10,00,000
Short term capital loss u/s 111A of Mr. Jaji	(10,00,000)

Compute the total income of Mr. Jaji for AY 2023-24 and the losses to be carried forward assuming that he files his return every year before due date.

■

## Computation of total income of Mr. Jaji for AY 2023-24

Particulars	Rs.	Rs.
<b>Profits and gains of business or profession</b>		
Income from profession		10,00,000
<b>Capital gains</b>		
Long term capital gain	4,00,000	
Long term capital gain from shares	10,00,000	
Less: Short term capital loss set off u/s 70	(6,00,000)	
Less: Short term capital loss u/s 111A set off u/s 70	(8,00,000)	-
<b>Income from other sources</b>		
Income of minor son Biju clubbed u/s 64(1A)	1,50,000	
Less: Exemption u/s 10(32)	(1,500)	
	1,48,500	
Income of minor daughter Chitra:		
Income as professional dancer: Not clubbed since it arises on account of her talent	-	
Interest from SBI clubbed u/s 64(1A)	20,000	
Gift received from friends of Mr. Jaji – Not taxable u/s 56(2)(x) since it does not exceed Rs. 50,000	-	
Less: Exemption u/s 10(32)	(1,500)	1,67,000
<b>Total income</b>		<b>11,67,000</b>

## Statement of losses to be carried forward to AY 2024-25

Particulars	Rs.
Unabsorbed short term capital loss u/s 111A carried forward u/s 74	2,00,000

**B13. Comprehensive - CA2021(JULY)** – Brajesh is a partner in a partnership firm named XYZ & Associates. He provides the details regarding his income and losses for the FY 2022-23 and brought forward losses as follows:

- Salary from XYZ & Associates Rs. 3,75,000 which was claimed by the firm in its return and allowed as deduction.
- Long term capital gain on sale of his house Rs. 2,50,000.
- Long term capital loss on sale of shares listed in National Stock Exchange. STT has been paid on the transactions of purchase and sales. Rs. 1,50,000.
- Business loss brought forward from AY 2022-23 Rs. 6,25,000.
- Dividend received from listed equity shares of domestic companies Rs. 27,500.
- Gift received from father's friend Rs. 51,000 in cash.
- Loss from speculative business brought forward from AY 2020-21, Rs. 2,50,000.
- Life insurance premium paid (10% of the capital sum assured) Rs. 1,00,000.

Compute the total income of Brajesh for AY 2023-24 and show the items eligible for carry forward.

■

## Computation of total income for AY 2023-24

Particulars	Rs.	Rs.
<b>Profits and gains of business or profession</b>		
Salary from firm (taxable as business income to the full extent as it is allowed as deduction to the firm)	3,75,000	
Less: Business loss brought forward from AY 2022-23 set off u/s 72	(3,75,000)	
		-
<b>Capital gains</b>		
Long term capital gain on sale of house	2,50,000	
Less: Long term capital loss on sale of shares (u/s 112A) set off u/s 70	(1,50,000)	
		1,00,000
<b>Income from other sources</b>		
Dividend from domestic companies	27,500	
Gift from father's friend taxable u/s 56(2)(x) since it exceeds Rs. 50,000	51,000	
		78,500
<b>Gross total income</b>		<b>1,78,500</b>
Less: Deduction u/s 80C for LIC premium: Restricted to IFOS of 78,500. It is not allowed from long term		(78,500)

capital gain (see para 192 of Concepts Book)	
<b>Total income</b>	<b>1,00,000</b>

*Statement of losses to be carried forward to AY 2024-25*

Particulars	Rs.
Unabsorbed business loss of AY 2022-23 (6,25,000 – 3,75,000) carried forward u/s 72	2,50,000
Unabsorbed speculative business loss of AY 2020-21 carried forward u/s 73 since it can be set off only against profit of speculative business	2,50,000

*Mistake by students – Showed salary from firm under the head 'Salaries' instead of PGBP.*

**B14. Comprehensive - CA2021(JULY) – X, a resident individual, submits the following information, relevant to PY ending 31.3.2023:**

#	Particulars	Rs.
1	Income from salary (computed)	2,22,000
2	Income from house property	
	House in Delhi	22,000
	House in Chennai	(2,60,000)
	House in Mumbai (self occupied)	(20,000)
3	Profits and gains of business or profession	
	Textile business	18,000
	Cosmetics business	(22,000)
	Speculative business – 1	(74,000)
	Speculative business – 2	46,000
4	Capital gains	
	Short term capital loss from sale of property	(16,000)
	Long term capital gain from sale of property	15,400
5	Income from other sources (computed)	
	Income from betting	34,000
	Income from card games	46,000
	Loss on maintenance of race horses	(14,600)

Determine the gross total income of X for AY 2023-24 and the losses to be carried forward.

■

*Computation of total income of X for AY 2023-24*

Particulars	Rs.	Rs.
<b>Salaries</b>		
Income from salary (computed)	2,22,000	
Less: House property loss of 2,58,000 (see below) set off u/s 71 up to 2 lakh. Balance is carried forward.	(2,00,000)	
		22,000
<b>Income from house property</b>		
Income from house in Delhi	22,000	
Less: Loss from house in Chennai set off u/s 70	(2,60,000)	
Less: Loss from house in Mumbai (self occupied) set off u/s 70	(20,000)	
	(2,58,000)	-
<b>Profits and gains of business or profession</b>		
Profits from speculative business – 2	46,000	
Less: Loss from speculative business – 1 set off u/s 73. Balance is carried forward.	(46,000)	
		-
Profit from textile business	18,000	
Less: Loss from cosmetics business set off u/s 70. Balance is carried forward.	(18,000)	
		-
<b>Capital gains</b>		
Long term capital gain from sale of property	15,400	
Less: Short term capital loss from sale of property set off u/s 70. Balance is carried forward.	(15,400)	

		-
<b>Income from other sources</b>		
Income from betting	34,000	
Income from card games	46,000	
Loss on maintenance of race horses: Can only be set off against income from such activity. Hence, carried forward.	-	
		80,000
<b>Gross total income</b>		<b>1,02,000</b>

*Statement of losses to be carried forward to AY 2023-24*

Particulars	Rs.
Unabsorbed house property loss carried forward u/s 71B (2,58,000 – 2,00,000)	58,000
Unabsorbed loss from speculative business - 1 carried forward u/s 73 (74,000 – 46,000)	28,000
Unabsorbed loss from cosmetics business carried forward u/s 72 (22,000 – 18,000). Cannot be set off against salary.	4,000
Unabsorbed short term capital loss carried forward u/s 74 (16,000 – 15,400)	600
Unabsorbed loss on maintenance of race horses carried forward u/s 74A	14,600

**B15. Comprehensive - CA2021(JAN)** - Mr. Tarun, a resident individual, furnishes the following particulars of his income and other details for the previous year 2022-23:

Particulars	Rs.
Income from salary (computed)	25,00,000
Business loss before providing current year depreciation (business discontinued on 31.5.2022)	1,20,000
Current year depreciation	80,000
Interest from fixed deposit	12,14,000
Interest on loan in respect of self occupied property	2,15,000
Income from specified business (not eligible for deduction u/s 35AD)	20,000

*Brought forward losses (pertaining to AY 2022-23):*

Unabsorbed depreciation	58,000
Loss from specified business (eligible for deduction u/s 35AD)	24,000

You are required to compute his total income for AY 2023-24 in such a way that his tax liability is minimized.

■

*Computation of total income of Mr. Tarun for AY 2023-24*

Particulars	Rs.	Rs.
<b>Salaries</b>		
Income from salary (computed)	25,00,000	
Less: Loss from house property of Rs. 2 lakh (interest on loan for self occupied property) set off u/s 71	(2,00,000)	
		23,00,000
<b>Profits and gains of business or profession:</b>		
Income from specified business (not eligible for deduction u/s 35AD)	20,000	
Less: Loss from specified business (eligible for deduction u/s 35AD) set off u/s 73A. Loss can be set off against income of any specified business referred u/s 35AD whether or not eligible for deduction.	(20,000)	
		Nil
<b>Income from other sources:</b>		
Interest from fixed deposit	12,14,000	
Less: Current year business loss (after current year depreciation) set off u/s 71	(2,00,000)	
Less: Brought forward unabsorbed depreciation u/s 32(2): Can be set off against any income other than salary	(58,000)	
		9,56,000
<b>Total income</b>		<b>32,56,000</b>

*Statement of losses to be carried forward to AY 2024-25*

Particulars	Rs.
Unabsorbed loss from specified business: Carried forward u/s 73A (24,000 – 20,000)	4,000

**B16. Comprehensive – CA2020(NOV) – Pooja, a resident individual, provides the following information of her income/losses for the year ended 31.3.2023:**

#	Particulars	Rs.
1	Income from salary (computed)	2,20,000
2	Income from house property (let out): NAV	1,50,000
3	Share of loss from firm in which she is partner	10,000
4	Loss from specified business covered u/s 35AD	20,000
5	Income from textile business before adjusting the following items:	3,00,000
	(a) Current year depreciation Rs. 60,000	
	(b) Unabsorbed depreciation of earlier year Rs. 2,25,000	
	(c) Brought forward loss of textile business of AY 2021-22 Rs. 90,000	
6	Long term capital gain on sale of debentures	75,000
7	Long term capital loss on sale of equity shares (STT not paid)	1,00,000
8	Long term capital gain on sale of equity shares listed on recognized stock exchange (STT paid at the time acquisition and sale)	1,50,000
9	Dividend from units of UTI	5,000

During the PY 2022-23, Pooja has repaid Rs. 5,25,000 towards housing loan from a scheduled bank. Out of this, Rs. 3,16,000 was towards payment of interest and rest towards principal.

Compute the gross total income and ascertain the amount of loss that can be carried forward. Pooja has always filed her return within the due date specified u/s 139(1).

■ **Computation of gross total income of Pooja for AY 2023-24**

Particulars	Rs.	Rs.
<b>Salaries</b>		
Income from salary (computed)	2,20,000	
Less: Loss from house property set off u/s 71 up to Rs. 2 lakh (see below)	(2,00,000)	
		20,000
<b>Income from house property</b>		
NAV	1,50,000	
Less: Standard deduction u/s 24(a) @ 30%	(45,000)	
Less: Interest u/s 24(b)	(3,16,000)	
	2,11,000	
Less: Set off against income from salary (see above)	(2,00,000)	
Carried forward to AY 2024-25 u/s 71B	11,000	
		Nil
<b>Profits and gains of business or profession</b>		
Share of loss from firm (cannot be adjusted since income is exempt u/s 10(2A); cannot be carried forward)	-	
Loss from specified business covered u/s 35AD: Can only be set off against income from specified business covered u/s 35AD; carried forward to AY 2024-25 u/s 73A	-	
Income from textile business	3,00,000	
Less: Current year depreciation u/s 32	(60,000)	
Less: Brought forward business loss of AY 2021-22 u/s 72	(90,000)	
Less: Unabsorbed depreciation u/s 32(2) to the extent of Rs. 1,50,000	(1,50,000)	
		Nil
<b>Capital gains</b>		
Long term capital gain on sale of debentures	75,000	
Long term capital gain on sale of equity shares u/s 112A	1,50,000	
	2,25,000	
Less: Long term capital loss on sale of equity shares (STT not paid) u/s 112, set off u/s 70	(1,00,000)	
	1,25,000	
Less: Unabsorbed depreciation set off (2,25,000 – 1,50,000 set off against business income – 5,000 set off against dividend) (set off first against dividend income taxable at regular rates and then against LTCG taxable	(70,000)	

at a concessional rate so as to minimize tax liability)		
		55,000
<b>Income from other sources</b>		
Dividend from units of UTI	5,000	
Less: Unabsorbed depreciation	(5,000)	
		Nil
<b>Gross total income</b>		<b>75,000</b>

*Statement of losses to be carried forward to AY 2024-25*

Particulars	Rs.
Loss from house property carried forward u/s 71B	11,000
Loss from specified business covered u/s 35AD, carried forward u/s 73A	20,000

**B17. Comprehensive – CA2020(NOV) – The following information is furnished by Shankar for the FY 2022-23:**

Particulars	Rs.
Income from let out house property (computed)	3,50,000
Interest paid on housing loan for self occupied property	2,00,000
Income from textile business	5,75,000
Brought forward business loss of AY 2019-20	1,05,000
Short term capital loss	70,000
Brought forward long term capital loss from AY 2021-22	90,000
Long term capital gain on sale of house	75,000
Interest on enhanced compensation from Government for acquisition of land in 2018	5,00,000
Dividend received from ABC Ltd., Andhra Pradesh	15,000
Deposit made on 20.1.2023 in his PPF account	75,000
Loss from owning and maintaining race horse of AY 2021-22	20,000
Loss from gambling	8,000

Shankar filed the return of income for AY 2019-20 after the expiry of due date for filing the return. Compute the total income of Shankar for AY 2023-24 under proper heads and also state the loss that can be carried forward.

*Computation of total income of Shankar for AY 2023-24*

Particulars	Rs.	Rs.
<b>Income from house property</b>		
Income from let out house property (computed)	3,50,000	
Less: Loss from self occupied property set off u/s 70 (interest paid on housing loan represents loss from house property)	(2,00,000)	
		1,50,000
<b>Profits and gains of business or profession</b>		
Income from textile business	5,75,000	
Brought forward business loss of AY 2019-20 (cannot be carried forward since return of loss is filed after due date; hence cannot be set off)	-	
		5,75,000
<b>Capital gains</b>		
Long term capital gain on sale of house	75,000	
Less: Short term capital loss set off u/s 70	(70,000)	
Less: Brought forward long term capital loss from AY 2021-22 set off u/s 74	(5,000)	
		Nil
<b>Income from other sources</b>		
Interest on enhanced compensation = Rs. 5 lakh less 50% deduction	2,50,000	
Dividend received from ABC Ltd., Andhra Pradesh	15,000	
Loss from owning and maintaining race horse of AY 2021-22: Can be set off only against income from such activity u/s 74A	-	
Loss from gambling: Cannot be set off or carried forward	-	



	2,65,000
<b>Gross total income</b>	<b>9,90,000</b>
Less: Deduction u/s 80C for deposit in PPF	(75,000)
<b>Total income</b>	<b>9,15,000</b>

*Statement of losses to be carried forward to AY 2024-25*

Particulars	Rs.
Unabsorbed long term capital loss of AY 2021-22 carried forward u/s 74 (90,000 – 5,000)	85,000
Unabsorbed loss from owning and maintaining race horse of AY 2021-22 carried forward u/s 74A	20,000

**B18. Comprehensive – CA2019(NOV) – Following are the details of incomes/losses of Mr. Rishi for FY 2022-23:**

Particulars	Rs.
Taxable salary income (computed)	3,60,000
Taxable income from house property (computed)	
- from rented house property X	1,20,000
- from rented house property Y	(3,40,000)
Taxable profit from business (computed)	
- business P	2,30,000
- business Q	(12,000)
- business R (speculative business)	15,000
- business T (speculative business)	(25,000)
Taxable income from other sources	
- from card games	16,000
- from owning & maintaining race horses	(7,000)
- interest on securities	5,000

Determine the gross total income for AY 2023-24.

■

*Computation of gross total income of Rishi for AY 2023-24*

Particulars	Rs.	Rs.
<b>Income from salary</b>		
Salary income (computed)	3,60,000	
Less: Set off of loss from house property up to Rs. 2 lakh (inter head set off u/s 71)	(2,00,000)	
		1,60,000
<b>Income from house property</b>		
Income from property X	1,20,000	
Less: Loss from property Y (inter source set off u/s 70)	(3,40,000)	
Balance is set off against salary income up to Rs. 2 lakh (see above). Unabsorbed loss of Rs. 20,000 is carried forward to AY 2024-25 u/s 71B	(2,20,000)	Nil
<b>Profits and gains of business or profession</b>		
Income from business P	2,30,000	
Less: Loss from business Q (inter source set off u/s 70)	(12,000)	
	2,18,000	
Income from speculative business R	15,000	
Less: Loss from speculative business T. Can be set off only against income from speculative business u/s 73. Unabsorbed loss of Rs. 10,000 is carried forward to AY 2024-25 u/s 73	(15,000)	
		2,18,000
<b>Income from other sources</b>		
Income from card games	16,000	
Interest on securities	5,000	
Less: Loss from owning and maintaining race horses: Can be set off only against income from such activity; it is carried forward to AY 2024-25 u/s 74A	-	
		21,000
<b>Gross total income</b>		<b>3,99,000</b>

*Mistake by students – Setting off entire loss from house property against salary income instead of Rs. 2 lakh.*

**B19. Comprehensive – CA2018(NOV) – Rakesh Gupta has derived the following income/loss, as computed below, for PY 2022-23:**

Particulars	Rs.
Loss from let out house property	(2,50,000)
Loss from non speculation business	(3,20,000)
Income from speculation business	12,45,000
Loss from specified business covered u/s 35AD	(4,10,000)
Winning from lotteries (gross)	1,50,000
Winning from betting	90,000
Loss from card games	(3,40,000)

Compute the total income for AY 2023-24 showing clearly the manner of set off and the items eligible for carry forward. Return of income has been filed on 30.7.2023 (due date 31.7.2023).

■

Computation of total income of Rakesh Gupta for AY 2023-24

Particulars	Rs.	Rs.
<b>Profits and gains of business or profession:</b>		
Income from speculation business	12,45,000	
Less: Loss from non speculation business (inter source set off u/s 70)	(3,20,000)	
	9,25,000	
Less: Loss from let out property (inter head set off u/s 71 up to Rs. 2 lakh). Balance is carried forward.	(2,00,000)	
		7,25,000
<b>Income from other sources:</b>		
Winning from lotteries	1,50,000	
Winning from betting	90,000	
Loss from card games (cannot be set off against any other income and cannot be carried forward)	-	
		2,40,000
Gross total income		9,65,000
Less: Deduction under Chapter VIA		-
<b>Total income</b>		<b>9,65,000</b>

Statement of losses to be carried forward to AY 2024-25

Particulars	Rs.
Loss from specified business covered u/s 35AD: Can be set off only against income from such business. Carried forward u/s 73A.	4,10,000
Loss from house property carried forward u/s 71B (2,50,000 – 2,00,000).	50,000

Mistake by students: (1) Not aware that loss from card games cannot be set off and cannot be carried forward. (2) Did not specify items to be carried forward.

**B20. Comprehensive – CA2018(NOV) (modified) – Rajeev submits the following information for PY 2022-23:**

Particulars	Rs.
Income from salary	6,50,000
Income from House I	55,000
Loss from House II (self occupied property)	(1,25,000)
Loss from House III	(1,90,000)
Loss from leather business	(68,000)
Profit from cloth business	1,70,000
Business loss of chemical business acquired by inheritance	(45,000)
Brought forward loss of discontinued business of textile relating to FY 2017-18	(50,000)
Long term capital gain on transfer of listed equity shares on which STT was paid	25,000
Short term capital loss in equity oriented funds on which STT was paid	(35,000)
Income from crossword puzzles	12,000
Dividend from foreign company	8,500

Loss on owning and maintenance of race horses	(7,500)
Income from owning and maintenance of race bulls	9,000

Compute the gross total income and losses to be carried forward of Rajeev for AY 2023-24.

■  
Computation of gross total income of Rajeev for AY 2023-24

Particulars	Rs.	Rs.
<b>Income from salary</b>		
Income from salary (assumed computed)	6,50,000	
Less: Loss from house property set off u/s 71 to the extent of 2 lakh	(2,00,000)	
		4,50,000
<b>Income from house property</b>		
Income from House I	55,000	
Less: Loss from House II set off u/s 70	(1,25,000)	
Less: Loss from House III set off u/s 70	(1,90,000)	
	(2,60,000)	-
<b>Profits and gains of business or profession</b>		
Profit from cloth business	1,70,000	
Less: Loss from leather business set off u/s 70	(68,000)	
	1,02,000	
Less: Loss of chemical business acquired by inheritance. Successor cannot carry forward and set off loss of predecessor, except in case of inheritance, u/s 78(2).	(45,000)	
	57,000	
Less: Brought forward loss of discontinued business of textile relating to FY 2017-18, set off u/s 72. It is not necessary that textile business should continue in the year of set off.	(50,000)	
		7,000
<b>Capital gains</b>		
Long term capital gain on transfer of listed equity shares on which STT was paid	25,000	
Less: Short term capital loss in equity oriented funds on which STT was paid, set off u/s 70	(25,000)	
		-
<b>Income from other sources</b>		
Income from crossword puzzles	12,000	
Dividend from foreign company	8,500	
Loss on owning and maintenance of race horses: Can be set off only against income from such activity	-	
Income from owning and maintenance of race bulls	9,000	
		29,500
<b>Gross total income</b>		<b>4,86,500</b>

Statement of losses to be carried forward to AY 2024-25

Particulars	Rs.
Unabsorbed loss from house property of AY 2023-24 carried forward u/s 71B (2,60,000 – 2,00,000)	60,000
Unabsorbed short term capital loss of AY 2023-24 carried forward u/s 74 (35,000 – 25,000)	10,000
Loss on owning and maintenance of race horses of AY 2023-24 carried forward u/s 74A	7,500

*Mistake by students – Did not restrict set off of house property loss to 2 lakh; wrongly set off loss on owning and maintenance of race horses against income from owning and maintenance of race bulls.*

**B21. Comprehensive – CA2016(MAY) – Mr. Aditya furnishes the following details for the year ended 31.3.2023:**

Particulars	Rs.
Loss from speculative business A	(25,000)
Income from speculative business B	5,000
Loss from specified business covered u/s 35AD	(20,000)
Income from salary	2,50,000
Loss from house property	(1,50,000)

Income from trading business	45,000
Long term capital gain from sale of urban land	2,00,000
Long term capital loss on sale of shares (STT not paid)	(75,000)
Long term capital loss on sale of listed shares in recognized stock exchange (STT paid)	(82,000)

Following are the brought forward losses:

1. Losses from owning and maintaining race horses pertaining to AY 2019-20: Rs. 2,000
2. Loss from trading business of Rs. 5,000 relating to AY 2017-18.

Compute the total income and show the items eligible for carry forward.

■  
Computation of total income of Mr. Aditya for AY 2023-24

Particulars	Rs.	Rs.
<b>Income from salary</b>		
Income from salary (assumed to be computed)	2,50,000	
Less: Loss from house property (inter head set off u/s 71)	(1,50,000)	
		1,00,000
<b>Profits and gains of business or profession:</b>		
Income from speculative business B	5,000	
Less: Loss from speculative business A (inter source set off u/s 70). Balance of Rs. 20,000 is carried forward to next year u/s 73.	(5,000)	
		-
Income from trading business	45,000	
Less: Brought forward loss from trading business relating to AY 2017-18 set off u/s 72	(5,000)	
		40,000
<b>Capital gains:</b>		
Long term capital gain from sale of urban land	2,00,000	
Less: Long term capital loss on sale of shares (STT not paid) (inter source set off u/s 70)	(75,000)	
Less: Long term capital loss on sale of listed shares in recognized stock exchange (STT paid) (inter source set off u/s 70)	(82,000)	
		43,000
<b>Income from other sources:</b>		
Brought forward loss from owning and maintaining race horses pertaining to AY 2019-20: Can be set off only against income from such activity; cannot be carried forward to next year u/s 74A since time limit of 4 years expires in AY 2023-24.		-
<b>Total income</b>		<b>1,83,000</b>

Statement of losses to be carried forward to AY 2024-25

Particulars	Rs.
Unabsorbed loss from speculative business A carried forward u/s 73 (25,000 – 5,000)	20,000
Loss from specified business u/s 35AD: Can be set off only against income from such business. Carried forward u/s 73A.	20,000

**B22. Comprehensive – CA2013(MAY)** – From the following information of Mohit for the FY 2022-23, you are required to compute his total income and ascertain the amount of losses which will be carried forward to next year.

1. He owns two houses:
  - a. House No. 1 – Income after all statutory deductions 80,000
  - b. House No. 2 – Current year loss (38,000)
2. He has three proprietary business concerns:
  - a. Textile business:
    - i. Discontinued from 30.9.2022 – Current year loss (40,000)
    - ii. Brought forward loss of AY 2018-19 (95,000)
  - b. Chemical business – discontinued from 1.3.2020:
    - i. Bad debts allowed in earlier years recovered during the year 35,000
    - ii. Brought forward loss of AY 2019-20 (50,000)
  - c. Leather business – Profit for current year 1,00,000

d. Share of profit in a firm in which he is a partner since 2007	16,550
3. Short term capital gain	60,000
4. Long term capital loss	(35,000)
5. Contribution to LIC towards premium	10,000

■  
Computation of total income of Mohit for AY 2023-24

Particulars	Rs.	Rs.
<b>Income from house property</b>		
Income from House No. 1	80,000	
Less: Loss from House No. 2 set off u/s 70 (assumed it is computed)	(38,000)	42,000
<b>Profits and gains of business or profession:</b>		
Profits of leather business	1,00,000	
Share of profit in firm – Exempt u/s 10(2A)	-	
Bad debts of chemical business recovered: Taxable u/s 41(4) even if chemical business is discontinued	35,000	
	1,35,000	
Less: Current year loss of textile business set off u/s 70	(40,000)	
	95,000	
Less: Brought forward loss of textile business set off u/s 72	(95,000)	-
<b>Capital gains</b>		
Short term capital gain (long term capital loss cannot be set off against short term capital gain u/s 70)		60,000
<b>Gross total income</b>		<b>1,02,000</b>
Less: Deduction u/s 80C for LIC premium paid		(10,000)
<b>Total income</b>		<b>92,000</b>

Statement of losses to be carried forward to AY 2024-25

Particulars	Rs.
Unabsorbed business loss of chemical business of AY 2019-20 carried forward u/s 72	50,000
Unabsorbed long term capital loss carried forward u/s 74	35,000

**B23. Comprehensive – CA2010(NOV) – Sohan submits the following details of his income for AY 2023-24.**

Particulars	Rs.
Income from salaries	3,00,000
Loss from let out house property	(40,000)
Income from sugar business	50,000
Loss from iron ore business brought forward (discontinued in FY 2017-18)	(1,20,000)
Short term capital loss	(60,000)
Long term capital gain	40,000
Dividend	5,000
Income received from lottery winning (gross)	50,000
Winning in card games	6,000
Agricultural income	20,000
Short term capital loss u/s 111A	(10,000)
Bank interest	5,000

Compute the gross total income and losses to be carried forward.

■  
Computation of gross total income of Sohan for AY 2023-24

Particulars	Rs.	Rs.
<b>Salaries</b>		
Salary (assumed it is computed)	3,00,000	
Less: Loss from house property set off u/s 71	(40,000)	2,60,000
<b>Profits and gains of business or profession</b>		
Income from sugar business	50,000	

Less: Brought forward loss from iron ore business set off u/s 72 (continuance of business, in which loss was incurred, is not necessary) (assumed that loss pertains to AY 2018-19)	(50,000)	-
<b>Capital gain</b>		
Long term capital gain	40,000	
Less: Short term capital loss set off u/s 70	(40,000)	-
<b>Income from other sources</b>		
Dividend	5,000	
Income from lottery winning	50,000	
Winning in card games	6,000	
Bank interest	5,000	66,000
Agricultural income – Exempt		-
<b>Gross total income</b>		<b>3,26,000</b>

*Statement of losses to be carried forward to AY 2024-25*

Particulars	Rs.
Unabsorbed loss from iron ore business (1,20,000 – 50,000) of AY 2018-19 carried forward u/s 72	70,000
Unabsorbed short term capital loss of AY 2023-24 carried forward u/s 74 (60,000 – 40,000)	20,000
Unabsorbed short term capital loss u/s 111A of AY 2023-24 carried forward u/s 74	10,000

**B24. Comprehensive – CA2009(MAY) – Geeta is a resident individual. She provides the following details of her income/loss for the year ended 31.3.2023.**

- Salary received as a partner from a partnership firm – Rs. 7,50,000.
  - Loss on sale of shares listed in BSE of Rs. 3,00,000. Shares were held for 15 months and STT paid on sale.
  - Long term capital gain on sale of land – Rs. 5,00,000.
  - Rs. 51,000 received in cash from friends in party.
  - Rs. 55,000 received towards dividend on listed equity shares of domestic companies.
  - Brought forward business loss of AY 2018-19 of Rs. 12,50,000. Return for AY 2018-19 was filed in time.
- Compute gross total income for AY 2023-24 and ascertain the amount of loss that can be carried forward.

*Computation of gross total income of Geeta for AY 2023-24*

Particulars	Rs.	Rs.
<b>Profits and gains of business or profession</b>		
Salary from partnership firm (assumed it is deductible for the firm u/s 40(b))	7,50,000	
Less: Brought forward business loss of AY 2018-19 set off u/s 72 (carry forward is allowed u/s 80 as return was filed in time)	(7,50,000)	-
<b>Capital gain</b>		
Long term capital gain on sale of land	5,00,000	
Less: Long term capital loss on sale of shares (as POH is > 12 months) set off u/s 70	(3,00,000)	2,00,000
<b>Income from other sources</b>		
Gift from friends taxable u/s 56(2)(x) as value is > Rs. 50,000	51,000	
Dividend	55,000	1,06,000
<b>Gross total income</b>		<b>3,06,000</b>

*Statement of losses to be carried forward to AY 2024-25*

Particulars	Rs.
Unabsorbed business loss of AY 2018-19 carried forward u/s 72 (12,50,000 – 7,50,000)	5,00,000

**B25. Comprehensive – CA2008(NOV) – Mr. P, a resident individual, furnishes the following particulars of his income and other details for PY 2022-23.**

Particulars	Rs.
Income from salaries	18,000
Net annual value taxable under income from house property	70,000
Income from business	80,000
Income from speculative business	12,000

Long term capital gain on sale of land	15,800
Loss on maintenance of race horse	(9,000)
Loss on gambling	(8,000)

Depreciation allowable under the Act comes to Rs. 8,000 for which no treatment is given above. Other details of unabsorbed depreciation and brought forward losses are:

1. Unabsorbed depreciation	Rs. 9,000
2. Loss from speculative business	Rs. 16,000
3. Short term capital loss	Rs. 7,800
4. Unrealized rent	Rs. 17,000

Compute the gross total income for AY 2023-24 and amount loss that can or cannot be carried forward.

■

*Computation of gross total income of Mr. P for AY 2023-24*

Particulars	Rs.	Rs.
<b>Salaries</b>		
Income from salaries (assumed computed)		18,000
<b>Income from house property:</b>		
Net annual value	70,000	
Less: Standard deduction @ 30% of NAV	(21,000)	
	49,000	
Unrealized rent of earlier years (no tax treatment for current year)	-	
		49,000
<b>Profits and gains of business or profession</b>		
Income from business	80,000	
Less: Current year depreciation u/s 32	(8,000)	
Less: Brought forward unabsorbed depreciation u/s 32(2)	(9,000)	
		63,000
Income from speculative business	12,000	
Less: Brought forward loss from speculative business u/s 73	(12,000)	
		-
<b>Capital gains</b>		
Long term capital gain on sale of land	15,800	
Less: Brought forward short term capital loss u/s 74	(7,800)	
		8,000
<b>Gross total income</b>		<b>1,38,000</b>

*Statement of losses to be carried forward to AY 2024-25*

Particulars	Rs.
Unabsorbed loss from speculative business carried forward u/s 73 (assuming it is within the 4 year period) (16,000 – 12,000)	4,000
Loss on maintenance of race horses can be set off only against income from activity. It is carried forward u/s 74A	9,000
Loss on gambling cannot be set off or carried forward	-

**B26. Comprehensive - CA2019(MAY) – Mr. Rehman furnishes the following information for FY 2022-23**

Particulars	Rs.
Loss from speculation business A	(70,000)
Profit from speculation business B	30,000
Loss from self occupied property	(2,20,000)
Income from let out property	4,20,000
Income from trading and manufacturing business	2,00,000
Salary income	3,70,000
Interest on PPF deposit	65,000
Long term capital gain on sale of vacant site	1,10,000
Short term capital loss on sale of jewellery	(50,000)

Investment in tax saver deposit on 31.3.2023	60,000
Brought forward loss of business of AY 2017-18	(1,00,000)
Enhanced compensation received from Government for compulsory acquisition of land in the year 2008	3,00,000

Compute the total income for AY 2023-24 and the loss he is eligible to carry forward.

■  
Computation of total income of Mr. Rehman for AY 2023-24

Particulars	Rs.	Rs.
<b>Salaries</b>		
Income from salary (assumed it is computed)		3,70,000
<b>Income from house property</b>		
Income from let out property	4,20,000	
Less: Loss from self occupied property set off u/s 70 (loss from self occupied property cannot exceed Rs. 2 lakh since this is the limit for interest deduction u/s 24(b))	(2,00,000)	
		2,20,000
<b>Profits and gains of business or profession</b>		
Profit from speculation business B	30,000	
Less: Loss from speculation business A set off u/s 73	(30,000)	
		-
Income from trading and manufacturing business	2,00,000	
Less: Brought forward business loss of AY 2017-18 set off u/s 72	(1,00,000)	
		1,00,000
<b>Capital gains</b>		
Enhanced compensation for compulsory acquisition of land in 2008: Capital gain u/s 45(5) is taxable in the year of receipt of compensation. Capital gain = Compensation – Nil cost of acquisition.	3,00,000	
Long term capital gain on sale of vacant site	1,10,000	
Less: Short term capital loss on sale of jewellery set off u/s 70	(50,000)	
		3,60,000
<b>Income from other sources</b>		
Interest on PPF deposit (exempt u/s 10)		-
<b>Gross total income</b>		10,50,000
Less: Deduction u/s 80C for investment in tax saver deposit		(60,000)
<b>Total income</b>		<b>9,90,000</b>

Statement of losses to be carried forward to AY 2024-25

Particulars	Rs.
Unabsorbed loss from speculation business A of AY 2023-24 carried forward u/s 73 (70,000 – 30,000)	40,000

**B27. Comprehensive – CA2011(MAY) –** Following are the details relating to Mr. Srivatsan, a resident Indian, aged 57, relating to the year ended 31.3.2023.

Particulars	Rs.
Income from salaries	2,20,000
Loss from house property	(1,90,000)
Loss from cloth business	(2,40,000)
Income from speculation business	30,000
Loss from specified business covered by section 35AD	(20,000)
Long term capital gain from sale of urban land	2,50,000
Long term capital loss from sale of listed shares in recognized stock exchange (STT paid)	(1,10,000)
Loss from card games	(32,000)
Income from betting	45,000
Life insurance premium paid	1,20,000

Compute the total income and show the items eligible for carry forward.

■



## Computation of total income of Mr. Srivatsan for AY 2023-24

Particulars	Rs.	Rs.
<b>Salaries</b>		
Income from salaries (assumed it is computed)	2,20,000	
Less: Loss from house property set off u/s 71	(1,90,000)	30,000
<b>Profits and gains of business or profession</b>		
Income from speculation business	30,000	
Less: Loss from cloth business set off u/s 70	(30,000)	-
<b>Capital gains</b>		
Long term capital gain from sale of urban land	2,50,000	
Less: Long term capital loss from sale of shares set off u/s 70	(1,10,000)	
	1,40,000	
Less: Loss from cloth business set off u/s 71	(1,40,000)	-
<b>Income from other sources</b>		
Income from betting		45,000
Loss from card games: Can neither be set off against any other income nor can be carried forward		-
<b>Gross total income</b>		<b>75,000</b>
Less: Deduction u/s 80C (not allowed from winnings)		(30,000)
<b>Total income</b>		<b>45,000</b>

## Statement of losses to be carried forward to AY 2024-25

Particulars	Rs.
Unabsorbed loss from cloth business of AY 2023-24 carried forward u/s 72 (2,40,000 – 30,000 – 1,40,000). Cannot be set off against salary income or income from betting.	70,000
Loss from specified business covered u/s 35AD of AY 2023-24 can be set off only against income from specified business covered u/s 35AD. It is carried forward u/s 73A.	20,000

**B28. Comprehensive - CA2017(MAY)** – Shyam, a resident of Chandigarh, provides the following information for FY 2022-23:

Particulars	Rs.
Income from textile business	4,60,000
Income from speculation business	25,000
Loss from gambling	(12,000)
Loss on maintenance of race horses	(15,000)
Eligible current year depreciation of textile business not adjusted in the income given above	(5,000)
Unabsorbed depreciation of textile business of AY 2020-21 brought forward	(10,000)
Speculation business loss of AY 2020-21	(30,000)

Compute the gross total income for AY 2023-24 and any other item of expense or loss eligible for carry forward.

■

## Computation of gross total income of Shyam for AY 2023-24

Particulars	Rs.	Rs.
<b>Profits and gains of business or profession:</b>		
Income from textile business	4,60,000	
Less: Current year depreciation	(5,000)	
Less: Brought forward unabsorbed depreciation adjusted u/s 32(2)	(10,000)	4,45,000
Income from speculation business	25,000	
Less: Brought forward speculation business loss of AY 2020-21 (set off u/s 73)	(30,000)	
Unabsorbed speculation loss carried forward to AY 2024-25 u/s 73	(5,000)	-
<b>Income from other sources:</b>		
Loss from gambling: Cannot be set off; cannot be carried forward		-

Loss on maintenance of race horses: Can be set off only against income from such activity; carried forward u/s 74A to AY 2024-25		-
<b>Gross total income</b>		<b>4,45,000</b>

**B29. Comprehensive – CA2014(MAY) – Mr. Garg, a resident individual, furnishes the following particulars of his income and other details for PY 2022-23:**

Particulars	Rs.
Income from salary	15,000
Income from business (before providing depreciation)	66,000
Long term capital gain on sale of land	10,800
Loss on maintenance of race horses	(15,000)
Loss from gambling	(9,100)

The other details of unabsorbed depreciation and brought forward losses pertaining to AY 2022-23 are as follows:

1. Unabsorbed depreciation Rs. 11,000
2. Loss from speculative business Rs. 22,000
3. Short term capital loss Rs. 9,800

Compute the gross total income of Mr. Garg for AY 2023-24 and the amount of loss, if any, that can be carried forward.

Computation of gross total income of Mr. Garg for AY 2023-24

Particulars	Rs.	Rs.
Income from salary (assuming it is computed)		15,000
Income from business	66,000	
Less: Unabsorbed depreciation u/s 32(2)	(11,000)	55,000
Loss from speculative business: Can be set off only against income from speculative business u/s 73; it is carried forward u/s 73 assuming it is within the 4 year time limit (Rs. 22,000)		-
Long term capital gain on sale of land	10,800	
Less: Brought forward short term capital loss set off u/s 74	(9,800)	1,000
Loss on maintaining race horses: Can be set off only against income from such activity; it is carried forward u/s 74A (Rs. 15,000)		-
Loss from gambling: Can neither be set off nor carried forward		-
<b>Gross total income</b>		<b>71,000</b>

**B30. Comprehensive – CA2019(NOV) – Ms. Netra, a resident individual, aged 32 years, furnishes you with the following information for the year ended 31.3.2023.**

Particulars	Rs.
Income from business of handloom trading	2,65,000
Long term capital gain on sale of jewellery	1,55,000
Long term capital loss on sale of shares listed on RSE (STT paid at time of sale and purchase)	(1,25,000)

Ms. Netra also has a brought forward loss of Rs. 4,500 from handloom business related to AY 2014-15 and a brought forward loss from house property amounting to Rs. 2,20,000 related to AY 2022-23.

Compute her total income for AY 2023-24 and the amount of loss, if any, to be carried forward.

Computation of total income of Ms. Netra for AY 2023-24

Particulars	Rs.	Rs.
<b>Profits and gains of business or profession</b>		
Income from business of handloom trading	2,65,000	
Less: Brought forward loss from handloom business of AY 2014-15: Cannot be set off since the 8 year period u/s 72 expired in AY 2022-23.	-	2,65,000
<b>Capital gain</b>		
Long term capital gain on sale of jewellery	1,55,000	
Less: Long term capital loss on sale of shares set off u/s 70	(1,25,000)	30,000
<b>Total income</b>		<b>2,95,000</b>

## Statement of losses to be carried forward to AY 2024-25

Particulars	Rs.
Loss from house property can be set off only against income from house property. Carried forward u/s 71B	2,20,000

**B31. Comprehensive – CA2015(NOV) – Mr. Venus provides the following details for the PY ending 31.3.2023.**

- Salary from HNL Ltd. (computed) Rs. 6,00,000.
  - Interest on FD with SBI for FY 2022-23 Rs. 72,000 (net of TDS)
  - Determined long term capital loss of AY 2022-23 (to be carried forward) Rs. 96,000.
  - Long term capital gain Rs. 75,000.
  - Loss of minor son Rs. 90,000 computed in accordance with the provisions of the Act. Mr. Venus transferred his own house to his minor son without adequate consideration few years back and minor son let it out and suffered loss.
  - Loss of his wife's business Rs. 2,00,000. She carried business with funds which Mr. Venus gifted to her.
- You are required to compute taxable income of Mr. Venus for AY 2023-24.

## Computation of taxable income of Mr. Venus for AY 2023-24

Particulars	Rs.	Rs.
<b>Income from salaries</b>		
Income from salary (computed)	6,00,000	
Less: Set off of loss from house property u/s 71: Mr. Venus is deemed owner of house property u/s 27(i) and loss is assessable in his hands.	(90,000)	
		5,10,000
<b>Capital gains</b>		
Long term capital gain	75,000	
Less: Brought forward long term capital loss of AY 2022-23 set off u/s 74. Balance of Rs. 21,000 is carried forward to AY 2024-25 u/s 74.	(75,000)	
		Nil
<b>Income from other sources</b>		
Interest on FD with SBI: Grossed up for TDS = Rs. 72,000 × (100/90). Assuming Mr. Venus is not a senior citizen, deduction u/s 80TTB (see para 203 of Concepts Book) will not be available from gross total income.	80,000	
Less: Set off of business loss of wife's business u/s 71. It is clubbed with income of Mr. Venus u/s 64(1)(iv). Cannot be set off against salary income. Balance of Rs. 1,20,000 is carried forward to AY 2024-25 u/s 72	(80,000)	Nil
<b>Taxable income</b>		<b>5,10,000</b>

**B32. Comprehensive – Master Question - Compute gross total income of Farman for AY 2023-24 from the information given below:**

Particulars	Rs.
Income from salaries (computed)	1,50,000
Loss from let out house property (computed)	(2,50,000)
Loss from self occupied house property of AY 2018-19 (return was filed after due date)	(60,000)
Income from manufacturing business (before depreciation)	2,70,000
Current year depreciation of manufacturing business	(50,000)
Unabsorbed depreciation of AY 2022-23	(30,000)
Brought forward manufacturing business loss of AY 2017-18	(90,000)
Income from speculation business A	1,40,000
Brought forward loss of speculation business B of AY 2021-22 (business discontinued on 1.10.2020)	(2,40,000)
Brought forward loss from hotel business, referred u/s 35AD, of AY 2022-23	(70,000)
Brought forward loss from cold chain business, referred u/s 35AD, of AY 2018-19 (return was filed after due date)	(90,000)
Short term capital gain on sale of shares of JBK Pvt Ltd. by wife (shares gifted by Farman)	1,00,000
Short term capital loss on sale of listed shares (STT paid)	(1,50,000)
Long term capital gain from sale of gold	80,000
Long term capital loss from sale of listed shares (STT paid on purchase and sale) brought forward from AY 2017-18	(1,30,000)
Income from rubber business (before apportionment under rule 7A)	2,00,000
Share of loss from partnership firm	(1,40,000)
Loss from card games	(40,000)

Winning from lottery (net of TDS @ 30%)	70,000
Income from owning and maintaining race horses	60,000
Loss from owning and maintaining race horses of AY 2019-20	(1,50,000)
Income from owning and maintaining race bulls	70,000

■ *Computation of gross total income of Farman for AY 2023-24*

Particulars	Rs.	Rs.
<b>Salaries</b>		
Income from salaries (computed)	1,50,000	
Less: Loss from house property set off u/s 71 (to the extent of income from salary of Rs. 1,50,000)	(1,50,000)	-
<b>Profits and gains of business or profession</b>		
Income from manufacturing business (before depreciation)	2,70,000	
Less: Current year depreciation u/s 32(1)	(50,000)	
Less: Brought forward business loss of AY 2017-18 set off u/s 72	(90,000)	
Less: Unabsorbed depreciation of AY 2022-23 u/s 32(2)	(30,000)	
	1,00,000	
Income from rubber business (35% of 2 lakh is business income under Rule 7A; balance is agricultural income exempt u/s 10(1))	70,000	
	1,70,000	
Less: Share of loss from partnership firm (exempt u/s 10(2A); hence, cannot be set off)	-	
Less: Balance loss from house property can be set off up to Rs. 2 lakh (2,00,000 – 1,50,000 set off against salary income)	(50,000)	1,20,000
Income from speculation business A	1,40,000	
Less: Loss from discontinued speculation business B of AY 2021-22 set off u/s 73; continuance of business, in which loss was incurred, is not necessary	(1,40,000)	-
<b>Capital gain</b>		
Short term capital gain on sale of shares of JBK Pvt Ltd. by wife (clubbed with the income of Farman u/s 64(1)(iv))	1,00,000	
Less: Short term capital loss on sale of listed shares u/s 111A set off u/s 70	(1,50,000)	
	(50,000)	
Long term capital gain from sale of gold	80,000	
Less: Balance short term capital loss on sale of listed shares u/s 111A (see above) set off u/s 70	(50,000)	
Less: Brought forward long term capital loss from sale of listed shares u/s 112A brought forward from AY 2017-18 set off u/s 74	(30,000)	-
<b>Income from other sources</b>		
Income from owning and maintaining race horses	60,000	
Less: Brought forward loss from owning and maintaining race horses of AY 2019-20 set off u/s 74A	(60,000)	
	-	
Loss from card games: Cannot be set off and cannot be carried forward	-	
Winning from lottery (gross of TDS) = 70,000 × (100/70)	1,00,000	
Income from owning and maintaining race bulls	70,000	1,70,000
<b>Gross total income</b>		<b>2,90,000</b>

*Statement of losses to be carried forward to AY 2024-25*

Particulars	Rs.
Unabsorbed loss from let out house property of AY 2023-24 carried forward u/s 71B (2,50,000 – 2,00,000)	50,000
Unabsorbed brought forward loss of self occupied house property of AY 2018-19 can be set off only against income from house property; carried forward u/s 71B; filing of return of loss in time is not required u/s 80	60,000
Unabsorbed brought forward loss of speculation business B of AY 2021-22; can be set off only against income from speculation business; carried forward u/s 73 (2,40,000 – 1,40,000)	1,00,000
Unabsorbed brought forward loss from hotel business, referred u/s 35AD, of AY 2022-23; can be set off only against income of specified business referred u/s 35AD; carried forward u/s 73A	70,000

Brought forward loss from cold chain business, referred u/s 35AD, of AY 2018-19 (return of loss was filed after due date); cannot be carried forward from AY 2018-19 in view of section 80	-
Unabsorbed brought forward long term capital loss from sale of listed shares u/s 112A of AY 2017-18; can only be set off against long term capital gain; carried forward u/s 74 (1,30,000 – 30,000)	1,00,000
Unabsorbed brought forward loss from owning and maintaining race horses of AY 2019-20; can be carried forward u/s 74A up to 4 years which expires with AY 2023-24; hence, cannot be carried forward to AY 2024-25	-

# MCQ

## INTER SOURCE ADJUSTMENT

**M1.** Which of the following sequence is correct for adjustment of losses?

- (a) Inter source, set off of brought forward loss, inter head (b) Inter head, inter source, set off of brought forward loss  
(c) Inter source, inter head, set off of brought forward loss (d) Sequence which minimizes tax liability

**M2.** An assessee can set off loss from a source under one head against income from a source under another head.

- (a) True (b) False

**M3.** Veeru has short term capital gain taxable @ 15% u/s 111A of Rs. 5,00,000, short term capital loss u/s 111A of Rs. 5,00,000 and salary income of Rs. 5,00,000 taxable @ 30%. He wants to set off short term capital loss against salary income so as to minimize his tax liability. Is this permissible?

- (a) Yes (b) No

**M4.** Veer has income from house A of Rs. 1,00,000 and loss from house B of Rs. 1,00,000. He also has short term capital gain of Rs. 50,000. His income after adjustment of losses would be:

- (a) (50,000) (b) Nil  
(c) (1,00,000) (d) 50,000

**M5.** Which of the following losses can be set off only against income from similar source under the same head?

- (a) Short term capital loss (b) Normal business loss  
(c) Long term capital loss (d) All the above

**M6.** Which of the following losses can be set off against any other income of that head?

- (a) Loss from house property (b) Loss from speculation business  
(c) Loss from business specified u/s 35AD (d) Loss from owning and maintaining race horses

**M7.** Loss from a source of income which is exempt can be set off against income from a source which is taxable.

- (a) True (b) False

**M8.** Roma has loss from speculation business of Rs. 50,000, income from speculation business of Rs. 25,000 and income from garment business of Rs. 50,000. Her income taxable under the head PGBP would be:

- (a) Nil (b) 50,000  
(c) (25,000) (d) 25,000

**M9.** Reema has loss from speculation business of Rs. 50,000, income from a specified business referred u/s 35AD of Rs. 75,000 and loss from garment business of Rs. 75,000. Her income taxable under the head PGBP would be:

- (a) 75,000 (b) 25,000  
(c) Nil (d) (50,000)

**M10.** Rohan has long term capital gain from sale of gold of Rs. 1,00,000, long term capital loss from sale of shares u/s 112A of Rs. 1,20,000, short term capital gain on sale of shares u/s 111A of Rs. 1,00,000 and short term capital loss on sale of units of mutual fund of Rs. 70,000. Her income under the head Capital Gain would be:

- (a) 10,000 (b) 1,10,000  
(c) (20,000) (d) 30,000

**M11.** Yogi has long term capital gain from sale of land Rs. 5,00,000, short term capital gain from sale of gold Rs. 1,00,000, short term capital loss from sale of paintings Rs. 2,00,000 and long term capital loss from sale of shares Rs. 2,00,000. His income under the head Capital Gain would be:

- (a) 3 lakh (b) 2 lakh  
(c) 1 lakh (d) 4 lakh

**M12.** Sonu has loss from the activity of owning and maintaining race horses of Rs. 1 lakh, winning from lottery of Rs. 1 lakh and loss from sub-letting of house of Rs. 1 lakh. His income under the head IFOS would be:

- |                      |                    |
|----------------------|--------------------|
| (a) Loss of 1 lakh   | (b) Nil            |
| (c) Income of 1 lakh | (d) Loss of 2 lakh |

**M13.** Sona, the minor child of Sonu, earned interest of Rs. 1 lakh on fixed deposit with a bank. Sonu has incurred loss of Rs. 1 lakh on sale of his book. Sonu's spouse is not alive. His net income under the head IFOS would be:

- |                      |                       |
|----------------------|-----------------------|
| (a) Nil              | (b) Loss of Rs. 1,500 |
| (c) Income of 1 lakh | (d) Loss of 1 lakh    |

#### INTER HEAD ADJUSTMENT

**M14.** Which of the following losses can be set off against income of any other head?

- |  |                                  |
|--|----------------------------------|
| (a) Long term capital loss                       | (b) Loss in speculation business |
| (c) Loss in specified business referred u/s 35AD | (d) Loss from house property     |

**M15.** Which of the following losses cannot be set off against income of any other head?

- |  |                                    |
|--|------------------------------------|
| (a) Short term capital loss                      | (b) Loss from speculation business |
| (c) Loss from owning and maintaining race horses | (d) All the above                  |

**M16.** Sohail has loss from manufacturing business of Rs. 1 lakh, salary income of Rs. 1 lakh, loss from house property of Rs. 1 lakh and long term capital loss of Rs. 1 lakh. His total income will be:

- |                      |                    |
|----------------------|--------------------|
| (a) Income of 1 lakh | (b) Loss of 2 lakh |
| (c) Nil              | (d) Loss of 1 lakh |

**M17.** Loss under the head IHP can be set off against income of any other head up to the limit of Rs. 2 lakh per head.

- |          |           |
|----------|-----------|
| (a) True | (b) False |
|----------|-----------|

**M18.** Salman has winning from card games of Rs. 50,000, undisclosed income of Rs. 40,000, loss from owning and maintaining race horses of Rs. 30,000 and short term capital loss of Rs. 60,000. His total income would be:

- |                      |                      |
|----------------------|----------------------|
| (a) Income of 30,000 | (b) Nil              |
| (c) Loss of 50,000   | (d) Income of 90,000 |

**M19.** Suhail has long term capital loss of Rs. 1 lakh, short term capital loss of Rs. 1 lakh, salary income of Rs. 1 lakh, income from house property of Rs. 2 lakh and loss from profession of Rs. 3 lakh. His total income would be:

- |                      |                    |
|----------------------|--------------------|
| (a) Income of 1 lakh | (b) Nil            |
| (c) Loss of 2 lakh   | (d) Loss of 1 lakh |

**M20.** Suraj has loss from let out property of Rs. 2 lakh, loss from self occupied of Rs. 1 lakh, salary income of Rs. 1 lakh, winning from lottery of Rs. 2 lakh and long term capital gain of Rs. 1 lakh. His total income would be:

- |                    |                      |
|--------------------|----------------------|
| (a) Nil            | (b) Income of 1 lakh |
| (c) Loss of 1 lakh | (d) Income of 2 lakh |

**M21.** Sana has loss from grocery business of Rs. 1 lakh, income from hospital business referred u/s 35AD of Rs. 3 lakh, loss from speculative day trading in shares of Rs. 2 lakh, loss from let out house property of Rs. 2.5 lakh, long term capital gain u/s 112A of Rs. 4 lakh, short term capital loss of Rs. 3.5 lakh, loss from card games of Rs. 50,000 and winning from betting of Rs. 1.5 lakh. Her total income would be:

- |                        |                      |
|------------------------|----------------------|
| (a) Income of 2 lakh   | (b) Income of 3 lakh |
| (c) Income of 1.5 lakh | (d) Income of 1 lakh |

**M22.** For AY 2023-24, Jaggu incurred loss of Rs. 5 lakh in transport business. He can set off this loss during AY 2023-24 against:

- |   |                                |
|---|--------------------------------|
| (a) Income from fertilizer business referred u/s 35AD | (b) Income from house property |
| (c) Long term capital gain from sale of shares        | (d) All the above              |

**M23.** Which of the following is a speculative transaction?

- |  |   |
|--|---|
| (a) Contract terminated without delivery by paying damages | (b) Brokerage earned by share broker for intra-day trading of clients                           |
| (c) Intra-day trading in shares without taking delivery    | (d) Hedging contract entered into by dealer of shares to guard against future price fluctuation |

**M24.** Which of the following is not a speculative transaction?

- |   |   |
|---|---|
| (a) Trading in derivatives in securities carried out on a recognized stock exchange | (b) Trading in commodity derivatives carried out on a recognized stock exchange |
| (c) Forward contract entered by a member of forward market to guard against loss    | (d) All the above   |

**CARRY FORWARD AND SET OFF**

- M25.** Which of the following can be carried forward for an indefinite time period?
- (a) Loss from house property (b) Unabsorbed depreciation  
(c) Business loss (d) Loss under the head Capital Gains
- M26.** Which of the following losses can be carried forward for a period of 8 years?
- (a) Loss from owning and maintaining race horses (b) Loss from speculation business  
(c) Loss from specified business referred u/s 35AD (d) Normal business loss
- M27.** Which of the following can be carried forward even if return of loss is not filed within the due date for the year in which loss is incurred?
- (a) Business loss (b) Loss from owning and maintaining race horses  
(c) Loss from house property (d) Loss under head Capital Gains
- M28.** Which of the following statements is correct?
- (a) Brought forward long term capital loss can be set off only against long term capital gain (b) Brought forward loss of a 35AD business can be set off only against income of business claiming deduction u/s 35AD  
(c) Unabsorbed depreciation can be set off only against business income (d) Brought forward loss from owning and maintaining race horses can be set off against any income under the head IFOs
- M29.** Which of the following statements is not correct in respect of set off of brought forward business loss?
- (a) Loss should be set off before set off of unabsorbed depreciation (b) Only the assessee, who incurred the loss, can set off the loss (except in case of inheritance)  
(c) Loss cannot be set off against income of any head other than PGBP (d) The business, in which loss is incurred, should continue in the year of set off
- M30.** Carried forward loss under a head can be set off against income under any other head.
- (a) True (b) False
- M31.** Which of the following statements is correct in respect of loss from house property?
- (a) Maximum possible loss from any house property can be Rs. 2 lakh (b) Unabsorbed loss from house property of a year can be carried forward to the next year for being set off against income of any head  
(c) Unabsorbed loss from house property of a year can be carried forward to the next year for being set off against income from house property only if return of loss is filed in time (d) Loss from house property of a year can be set off against income of any other head for the same year up to Rs. 2 lakh
- M32.** Which of the following losses can be set off against salary income?
- (a) Unabsorbed depreciation (b) Business loss  
(c) Loss from house property (d) Loss under the head Capital gain
- M33.** Sunny incurred loss of Rs. 1,50,000 from house property in AY 2019-20. He filed the return of loss for that year after the due date. For PY 2022-23, he has income from house property of Rs. 1,00,000 and interest on bank deposits of Rs. 1,50,000. Total income for AY 2023-24 and losses to be carried forward will be:
- (a) Total income 1.5 lakh (b) Total income 1.5 lakh; Carry forward loss from house property 50,000  
(c) Total income 2.5 lakh (d) Total income Nil; Carry forward loss from house property 50,000
- M34.** Raunak incurred loss from house property of Rs. 5 lakh for AY 2022-23 for which he filed return of income after the due date. For AY 2023-24, he has income from house property of Rs. 4 lakh. For AY 2023-24:
- (a) He cannot set off loss of Rs. 5 lakh; income from house property will be Rs. 4 lakh (b) He can set off loss of Rs. 2 lakh against income of Rs. 4 lakh and carry forward loss of Rs. 3 lakh to AY 2024-25  
(c) He can set off loss of Rs. 4 lakh against income of Rs. 4 lakh and carry forward loss of Rs. 1 lakh to AY 2024-25 (d) He can set off loss of Rs. 2 lakh against income of Rs. 4 lakh but cannot carry forward loss of Rs. 3 lakh to AY 2024-25
- M35.** For AY 2023-24, Jasmine earned income from speculation business of Rs. 70,000. Speculation business loss of AY 2017-18 of Rs. 50,000 and of AY 2021-22 of Rs. 60,000 were brought forward. Compute total income and loss to be carried forward for AY 2023-24.

- (a) Total income Nil; Carry forward loss 10,000 (b) Total income Nil; Carry forward loss 40,000  
 (c) Total income 10,000; Carry forward loss Nil (d) Total income 40,000; Carry forward Nil

**M36.** For AY 2023-24, Mohit had income from cold chain business referred u/s 35AD of Rs. 2,00,000, income from F&B business of Rs. 3,00,000 and short term capital loss u/s 111A of Rs. 1,00,000. Loss of Rs. 2,50,000 from the cold chain business, for AY 2014-15, was brought forward. Mohit filed return of income for AY 2023-24 after the due date. Total income and loss to be carried forward would be:

- (a) Total income 3 lakh; Carry forward loss 1,50,000 (b) Total income 5 lakh; Carry forward loss Nil  
 (c) Total income 4 lakh; Carry forward loss Nil (d) Total income 3 lakh; Carry forward loss 50,000

**M37.** Shaan has income from consulting business of Rs. 10 lakh for AY 2023-24. Unabsorbed business loss of AY 2021-22 is Rs. 2 lakh and of AY 2022-23 is Rs. 3 lakh. Unabsorbed depreciation for AY 2022-23 is Rs. 1 lakh. Which order of set off would be most beneficial for Shaan to follow?

- (a) Loss of AY 2022-23; loss of AY 2021-22; Unabsorbed depreciation of AY 2022-23 (b) Loss of AY 2021-22; loss of AY 2022-23; Unabsorbed depreciation of AY 2022-23  
 (c) Unabsorbed depreciation of AY 2022-23; loss of AY 2021-22; loss of AY 2022-23 (d) Unabsorbed depreciation of AY 2022-23; loss of AY 2022-23; loss of AY 2021-22

**M38.** For AY 2023-24, Gunjan has income from food business of Rs. 2,00,000 (before depreciation), current year depreciation of Rs. 50,000, unabsorbed depreciation of AY 2022-23 of Rs. 80,000, brought forward business loss from AY 2020-21 of Rs. 1,00,000, long term capital gain of Rs. 20,000 and salary income of Rs. 60,000. Determine total income for AY 2023-24 and loss to be carried forward:

- (a) Total income 80,000; carry forward business loss of 30,000 (b) Total income 80,000 carry forward unabsorbed depreciation of 30,000  
 (c) Total income 60,000; carry forward unabsorbed depreciation of 10,000 (d) Total income 50,000; carry forward loss of Nil

**M39.** For PY 2022-23, Faizal has income from jewellery business of Rs. 3,00,000 (before depreciation), current year depreciation of Rs. 1,00,000, unabsorbed depreciation of AY 2022-23 of Rs. 1,70,000, brought forward business loss from AY 2020-21 of Rs. 4,00,000, income from other sources of Rs. 70,000 and salary income of Rs. 50,000. Total income for AY 2023-24 and loss to be carried forward would be:

- (a) Total income 1.2 lakh; Carry forward business loss 2 lakh and unabsorbed depreciation 1.7 lakh (b) Total income 50,000; Carry forward business loss 2 lakh and unabsorbed depreciation 1.7 lakh  
 (c) Total income 1.2 lakh; Carry forward business loss 2 lakh and unabsorbed depreciation 1 lakh (d) Total income 50,000; Carry forward business loss 2 lakh and unabsorbed depreciation 1 lakh

**M40.** Mr. Y has the following particulars for AY 2023-24: Loss from retail business Rs. 4 lakh; long term capital gain on sale of flat Rs. 3 lakh and loss from house property Rs. 5 lakh. He filed his return of income after the due date of 31.10.2023. Total income for AY 2023-24 and loss to be carried forward would be:

- (a) Total income Nil; Carry forward business loss of 1 lakh (b) Total income Nil; Carry forward house property loss of 5 lakh  
 (c) Total income Nil; Carry forward business loss of 4 lakh and house property loss of 2 lakh (d) Total income 3 lakh; Carry forward house property loss of 5 lakh

**M41.** Johny has the following particulars of income for AY 2023-24: Income from transport business Rs. 1,00,000; loss from speculative business of AY 2018-19 Rs. 50,000; short term capital gain u/s 111A 1,75,000; short term capital loss from sale of rural agricultural land Rs. 3,50,000; long term capital loss u/s 112A brought forward from AY 2020-21 Rs. 1,25,000; short term capital loss on sale of unlisted shares brought forward from AY 2015-16 Rs. 2,25,000. Total income for AY 2023-24 and loss to be carried forward would be:

- (a) Total income 1 lakh; Carry forward loss 1.25 lakh (b) Total income 1 lakh; Carry forward loss 2.25 lakh  
 (c) Total income 1 lakh; Carry forward loss 1.75 lakh (d) Total income 50,000; Carry forward loss 1.25 lakh

**M42.** Roshni has the following particulars of income for AY 2023-24: income from salary Rs. 5,00,000; loss from self occupied house Rs. 1,00,000; loss from let out house Rs. 2,00,000; loss from hotel business referred u/s 35AD Rs. 3,00,000; loss from legal profession Rs. 1,50,000; long term capital gain from sale of gold Rs. 1,80,000; interest from bank FD Rs. 70,000. Compute total income.

- (a) 5 lakh (b) 3 lakh  
 (c) 2 lakh (d) 4 lakh

**M43.** For PY 2022-23, Sohan has the following particulars of income: Income from owning and maintaining race horses of Rs. 1,50,000; winning from gambling of Rs. 40,000; loss in betting Rs. 50,000; unexplained investment u/s 69 Rs. 70,000; loss in



gambling brought forward from AY 2022-23 Rs. 30,000; loss from owning and maintaining race horses brought forward from AY 2019-20 Rs. 2,50,000. Total income for AY 2023-24 and loss to be carried forward would be:

- (a) Total income 1,10,000; Carry forward loss 1,00,000 (b) Total income 70,000; Carry forward loss Nil  
(c) Total income 1,00,000; Carry forward Nil (d) Total income 1,10,000; Carry forward loss Nil

**M44.** For PY 2022-23, Mr. T has the following particulars of income and loss: Income from salary (computed) Rs. 3,50,000; loss from house property (let out) Rs. 2,50,000; brought forward loss from house property (let out) of AY 2022-23 Rs. 3,00,000; loss from transport business Rs. 2,40,000; interest on fixed deposits with bank Rs. 50,000. Total income for AY 2023-24 and loss to be carried forward would be:

- (a) Total income 1,50,000; Carry forward loss 5,40,000 (b) Total income Nil; Carry forward loss 3,90,000  
(c) Total income 50,000; Carry forward loss 5,40,000 (d) Total income 1,50,000; Carry forward loss 3,90,000

**M45.** Mr. J was engaged in retail business of garments and speculation business of trading in shares. He discontinued both these businesses on 15.10.2022. Loss in the aforesaid businesses for the PY 2022-23 up to the date of discontinuance was Rs. 10,000 and Rs. 30,000, respectively. Mr. J had claimed deduction of Rs. 1,00,000 on account of bad debts out of which Rs. 60,000 was allowed in the PY 2021-22. Mr. J recovered Rs. 70,000 from the debtor on 22.3.2023 in full and final settlement. The amount taxable in the hands of Mr. J for AY 2023-24 would be:

- (a) 20,000 (b) Nil  
(c) 70,000 (d) 30,000

## Answer Key for MCQs

M1 C; M2 B; M3 B; M4 D; M5 C; M6 A; M7 B; M8 B; M9 C; M10 D; M11 B; M12 C; M13 B; M14 D;  
M15 D; M16 C; M17 B; M18 D; M19 A; M20 D; M21 A; M22 D; M23 C; M24 D; M25 B; M26 D; M27 C;  
M28 A; M29 D; M30 B; M31 D; M32 C; M33 B; M34 C; M35 C; M36 D; M37 B; M38 C; M39 D; M40 B;  
M41 A; M42 D; M43 D; M44 A; M45 A

## Hints to MCQ answers

**M2.** Inter-source adjustment can be made only within the same head.

**M3.** STCG (loss) will be set off against STCG as per the process of inter-source adjustment u/s 70.

**M4.** Income under the head IHP = House A 1 lakh – House B 1 lakh set off u/s 70 = Nil. STCG is the balance income.

**M5.** A. Can be set off against any capital gain. B. Can be set off against income from any business. C. Can be set off only against LTCG.

**M6.** B/C/D: Can be set off only against income from a similar source.

**M8.** Loss from speculation business can be set off against income from speculation business. Balance loss from speculation business will be carried forward. PGBP = Garment business income.

**M9.** Loss from garment business can be set off against income from 35AD business. PGBP = Nil. Loss from speculation business can only be set off against income from speculation business.

**M10.** STCG 1,00,000 – STCG (loss) 70,000 = STCG 30,000. // LTCG 1,00,000 – LTCG (loss) 1,20,000 = Loss of 20,000. This cannot be set off against STCG.

**M11.** STCG 1,00,000 – STCG (loss) 2,00,000 = STCG (loss) 1,00,000. // LTCG 5,00,000 – STCG (loss) 1,00,000 – LTCG (loss) 2,00,000 = LTCG 2,00,000.

**M12.** Loss from OMRH can be set off only against income from such activity. No loss (i.e., from sub-letting) can be set off against winnings. IFOS = 1,00,000 winning.

**M13.** IFOS = 98,500 on account of Sonu's income clubbed u/s 64(1A) (1,00,000 – 1,500 exempt u/s 10(32)) – 1,00,000 loss on sale of book = 1,500 loss.

**M14.** A. Can be set off only against long term capital gain. B. Can be set off only against income from speculation business. C. Can be set off only against income from specified business referred u/s 35AD. D. Can be set off against income of any other head up to Rs. 2 lakh.

**M16.** Total income = Salary 1,00,000 – IHP loss 1,00,000 set off u/s 71 = Nil. Loss from business and long term capital loss will be carried forward.

**M17.** Over limit is 2 lakh. It is not per head.

**M18.** Total income = Winning 50,000 + Undisclosed income 40,000 = 90,000. Loss from owning and maintaining race horses and short term capital loss will be carried forward.

**M19.** Long term and short term capital loss will be carried forward. // Total income = IHP 2,00,000 – PGBP loss 2,00,000 + 1,00,000 salary = 1,00,000. // PGBP loss of 1,00,000 will be carried forward u/s 72 as it cannot be set off against salary.

**M20.** Salary 1 lakh + LTCG 1 lakh – 2 lakh IHP loss (set off limit is 2 lakh) = Nil. IHP loss of 1 lakh will be carried forward u/s 71B. Total income will comprise winning of 2 lakh.

- M21.** Speculative loss of 2 lakh will be carried forward u/s 73. // Income from hospital business of 3 lakh — Loss from grocery business of 1 lakh = 2 lakh. // Business income of 2 lakh — IHP loss set off up to 2 lakh (balance 0.5 lakh is carried forward u/s 71B) = Nil. // Long term capital gain 4 lakh – Short term capital loss 3.5 lakh = Long term capital gain 0.5 lakh. // Card games loss lapses. Winning = 1.5 lakh. // Total income = Winning 1.5 lakh + Long term capital gain 0.5 lakh = 2 lakh
- M28.** B. Can be set off against income of any specified business referred u/s 35AD. C. Can be set off against any income, other than salaries. D. Can be set off only against income from such activity.
- M31.** A. Loss from a let out house property is not limited to 2 lakh. B. Can be set off only against income from house property. C. Filing of return in time u/s 80 is not a condition for carry forward of house property loss.
- M33.** Income under the head IHP = IHP income of 1,00,000 – Brought forward IHP loss of 1,50,000 (filing of return of loss in time does not impact) = Nil (loss of 50,000 is carried forward u/s 71B). // Total income = Interest of 1,50,000.
- M34.** Not filing of return of loss in time does not impact carry forward of loss from house property. Brought forward house property loss u/s 71B can be set off against income from house property and limit of 2 lakh is not applicable.
- M35.** Total income = 70,000 income from speculation business – 60,000 loss from speculation business of AY 2021-22 u/s 73 – Nil loss from speculation business of AY 2017-18 (4 years have expired) = 10,000.
- M36.** Income from 35AD business of 2,00,000 – Brought forward loss from 35AD business u/s 73A of 2,00,000 = Nil (loss of 50,000 can be carried forward u/s 73A for which there is no time limit). // Income from F&B business = 3,00,000. // Short term capital loss cannot be carried forward u/s 80 as return of loss is not filed in time.
- M37.** Since time limit to carry forward business loss is limited to 8 years, it is better to first set off loss of earlier year. There is no time limit to carry forward unabsorbed depreciation.
- M38.** PGBP income = Income from food business of 2,00,000 – Current year depreciation of 50,000 – Brought forward business loss of 1,00,000 – Unabsorbed depreciation of 50,000 = Nil. // LTCG = 20,000 – Unabsorbed depreciation of 20,000 = Nil. // Unabsorbed depreciation cannot be set off against salary. // Total income = Salary income of 60,000. Balance unabsorbed depreciation of 10,000 is carried forward.
- M39.** PGBP = Income from jewellery business of 3,00,000 – Current year depreciation of 1,00,000 – Brought forward business loss of 2,00,000 = Nil (balance business loss of 2,00,000 is carried forward u/s 72). // IFOS = 70,000 – Unabsorbed depreciation of 70,000 = Nil (balance unabsorbed depreciation of 1,00,000 is carried forward). // Total income = Salary 50,000.
- M40.** Business loss cannot be carried forward due to not filing of return of loss in time but loss from house property can be carried forward. It is best to set off business loss against LTCG instead of house property loss. // Total income = LTCG of 3 lakh – Business loss of 3 lakh = Nil. Unabsorbed business cannot be carried forward. House property loss can be carried forward.
- M41.** Income from transport business = 1,00,000. // Speculative loss of 50,000 has expired with AY 2022-23. Hence, cannot be brought forward to AY 2023-24. // Long term capital loss of 1,25,000 is carried forward as it can be set off only against long term capital gain. // Short term capital gain = 1,75,000 – Short term capital loss on rural agricultural land of NIL as it is exempt – Short term capital loss on shares of 1,75,000 = Nil (unabsorbed short term capital loss of 50,000 expires with AY 2023-24, hence, cannot be carried forward). // Total income = PGBP 1,00,000.
- M42.** Income from salary = 5,00,000 – Loss from house property up to 2,00,000 = 3,00,000. Balance loss from house property of 1,00,000 is carried forward u/s 71B. // Loss from business referred u/s 35AD of 3,00,000 is carried forward u/s 73A. // LTCG of 1,80,000 + interest on bank FD of 70,000 – Loss from legal profession of 1,50,000 = 1,00,000. // Total income = 1,00,000 LTCG + 3,00,000 salary = 4,00,000.
- M43.** Income from owning/maintaining race horses = 1,50,000 – Brought forward loss from such activity of 1,50,000 = Nil (unabsorbed loss of 1,00,000 expires as 4 years end with AY 2023-24; hence, cannot be carried forward). // Total income = Winning from gambling of 40,000 – Loss in betting Nil (cannot be set off or carried forward) + Unexplained investment u/s 69 of 70,000 – Loss in gambling of last year of Nil (cannot be brought forward) = 1,10,000.
- M44.** Income from salary of 3,50,000 – House property loss up to 2,00,000 = 1,50,000. Balance house property loss of 3,50,000 (50,000 loss of current year + 3,00,000 unabsorbed brought forward loss) is carried forward. // IFOS of 50,000 – PGBP loss of 50,000 = Nil. Balance PGBP loss of 1,90,000 is carried forward. // Total income = 1,50,000. Carried forward loss = 3,50,000 + 1,90,000 = 5,40,000.
- M45.** Deemed profits u/s 41(4) on recovery of bad debt = Amount recovered of 70,000 - (Amount of debt of 1,00,000 - Deduction allowed of 60,000) = 30,000. Business income from retail = 30,000 - loss of 10,000 = 20,000. Loss in speculation business is carried forward.



## 12

# Deductions from Gross Total Income

## Build Your Confidence (BYC)

### DEDUCTION FOR INVESTMENTS

**B1. 80C - LIP** – Reuben has paid the following premiums in respect of life insurance policy during the PY 2022-23. Compute the amount of deduction eligible u/s 80C.

Insured	Date of issue of policy	Actual sum assured	Premium paid
Self	31.3.2003	1,50,000	12,500
Spouse	1.4.2012	2,00,000	22,000
Son (25 years) (premium paid on 1.4.2023)	31.3.2013	2,50,000	30,000
Daughter (17 years; suffering from disease specified u/s 80DDB)	20.6.2019	3,00,000	40,000
Mother	1.4.2020	1,30,000	10,000

#### Computation of deduction u/s 80C

Insured	Premium limit u/s 80C	Deduction u/s 80C
Self	20%	12,500
Spouse	10%	20,000
Son (25 years) (premium paid on 1.4.2023): Not eligible as not paid during PY 2022-23	10%	-
Daughter (17 years; suffering from disease specified u/s 80DDB)	15%	40,000
Mother: Not eligible	10%	-
		<b>72,500</b>

**B2. 80C** – Compute the total income of Mr. Q for AY 2023-24 from the following particulars.

Particulars	Rs.
Income from salary (computed)	2,50,000
Income from house property (computed)	1,00,000
Income from other sources (computed)	30,000
Life insurance premium paid on life of sister (policy issued on 14.5.2019 for sum assured of Rs. 5 lakh)	20,000
Life insurance premium paid on life of son suffering from disability referred u/s 80U (policy issued on 10.1.2018 for sum assured of Rs. 2 lakh)	25,000
Own contribution to recognized provident fund @ 12% of basic salary of Rs. 10,000 p.m. Employer made a matching contribution.	14,400
Deposit in PPF account of brother	20,000
Deposit in Sukanya Samridhi Account in the name of daughter (interest credited for the year was Rs. 30,000)	15,000

Purchase of NSC IX issue certificates	15,000
Deposit in National Housing Bank (Tax Saving) Term Deposit Scheme, 2008	8,000
Tuition fee paid to BCD college, Delhi, for part time education of son	24,000
Tuition fee paid to JK School, Delhi, for full time education of daughter (includes development fee of Rs. 30,000)	48,000
Repayment of loan taken from Bank of India for purchase of house property on 15.6.2021 (includes interest of Rs. 1,20,000)	1,50,000
Repayment of loan taken from SBI for repair of above said house property during the year (includes interest of Rs. 35,000)	50,000
Fixed deposit with Canara Bank for 18 months	60,000
Notified bonds of NABARD	20,000
Deposit in 5 year Post Office Time Deposit	15,000
Deposit in Post Office Savings Account	30,000

■

*Computation of total income for AY 2023-24*

Particulars	Rs.
Income from salary (computed)	2,50,000
Income from house property (computed)	1,00,000
Income from other sources (computed)	30,000
Gross total income	3,80,000
Less: Deduction u/s 80C (see Note)	(1,50,000)
<b>Total income</b>	<b>2,30,000</b>

*Note: Computation of deduction u/s 80C*

Particulars	Rs.
Life insurance premium paid on life of sister: Not eligible	-
Life insurance premium paid on life of son: Premium deductible up to 15% of actual sum assured	25,000
Own contribution to recognized provident fund: Own contribution is deductible u/s 80C; employer's contribution is considered while computing income from salary and is exempt up to 12% of salary.	14,400
Deposit in PPF account of brother: Not eligible	-
Deposit in Sukanya Samriddhi Account: Deposit is eligible u/s 80C. Interest is exempt u/s 10(11A).	15,000
Purchase of NSC IX issue certificates: Eligible	15,000
Deposit in National Housing Bank (Tax Saving) Term Deposit Scheme, 2008: Eligible	8,000
Tuition fee paid to BCD college, Delhi, for part time education of son: Not eligible for part-time education	-
Tuition fee to JK School, Delhi, for full time education of daughter (includes development fee of Rs. 30,000): Development fee is not eligible	18,000
Repayment of loan taken from Bank of India for purchase of house property: Repayment of loan is eligible; interest is taken into account u/s 24(b) in computing income under the head IHP	30,000
Repayment of loan taken from SBI for repair of above said house property: Repayment of loan for repair not eligible; interest is taken into account u/s 24(b) in computing income under the head IHP	-
Fixed deposit with Canara Bank for 18 months: Not eligible as term is < 5 years	-
Notified bonds of NABARD: Eligible	20,000
Deposit in 5 year Post Office Time Deposit: Eligible	15,000
Deposit in Post Office Savings Account: Not eligible	-
<b>Eligible amount u/s 80C</b>	<b>1,60,400</b>
<b>Deduction u/s 80C limited to Rs. 1,50,000</b>	<b>1,50,000</b>

**B3. 80C** – *Sajan has made the following payments during the PY 2022-23. Compute the amount of deduction allowable to him u/s 80C for AY 2023-24.*

- *Deposit in his own PPF Account - Rs. 1,50,000*
  - *Deposit in PPF Account of his wife - Rs. 20,000*
  - *Premium in respect of life insurance policy taken on the life of his wife – Rs. 20,000 (actual capital sum assured is Rs. 1,50,000 and the policy was taken on 1.9.2020).*
-

## Computation of deduction u/s 80C for AY 2023-24

Particulars	Rs.
Deposit in own PPF Account	1,50,000
Deposit in PPF Account of his wife	20,000
Life insurance premium on policy taken on the life of wife (deduction up to 10% of sum assured)	15,000
	1,85,000
<b>Deduction u/s 80C (up to Rs. 1,50,000)</b>	<b>1,50,000</b>

**B4-6. 80CCD, 80CCE** – Compute the total income of Mr. Z for AY 2023-24 from the following particulars.

Particulars	A	B	C
Employer	Central Government	JKL Pvt. Ltd.	-
Basic salary	20,000 p.m.	20,000 p.m.	-
Dearness allowance (75% forms part of retirement benefits)	100% of basic	100% of basic	-
Project allowance	5,000 p.m.	5,000 p.m.	-
Income from house property (computed)	5,00,000	5,00,000	5,00,000
Contribution of Mr. Z to NPS account	1,00,000	85,000	1,65,000
Contribution of employer to his NPS account	20% of basic	20% of basic	-
Contribution of Mr. Z to recognized provident fund	12% of basic and DA	12% of basic and DA	-
Contribution of employer to recognized provident fund	12% of basic and DA	12% of basic and DA	-
Deposit in pension fund of LIC	45,000	60,000	1,75,000

## Computation of total income of Mr. Z for AY 2023-24

Particulars	A	B	C
Income from salary			
• Basic salary	2,40,000	2,40,000	-
• Dearness allowance	2,40,000	2,40,000	-
• Project allowance	60,000	60,000	-
• Employer's contribution to NPS	48,000	48,000	
• Employer's contribution to RPF in excess of 12% (see Note 1)	7,200	7,200	-
• Gross salary income	5,95,200	5,95,200	-
• Less: Standard deduction u/s 16(ia)	(50,000)	(50,000)	-
Income under the head 'Salaries'	5,45,200	5,45,200	-
Income from house property (computed)	5,00,000	5,00,000	5,00,000
Gross total income	10,45,200	10,45,200	5,00,000
Less: Deduction under chapter VIA (see Note 2):			
Deduction u/s 80C, 80CCC and 80CCD(1) (up to Rs. 1,50,000 u/s 80CCE)	(1,44,600)	(1,50,000)	(1,50,000)
Deduction u/s 80CCD(1B)	(50,000)	(50,000)	(50,000)
Deduction u/s 80CCD(2)	(48,000)	(42,000)	-
<b>Total income</b>	<b>8,02,600</b>	<b>8,03,200</b>	<b>3,00,000</b>

**Note 1:** Employer's contribution to RPF = 12% of basic and DA = 12% of 4,80,000 = 57,600. This is exempt up to 12% of basic and DA (forming part of retirement benefits) = 12% of 4,20,000 (@ 20,000 basic + 15,000 DA) = 50,400. Excess = 57,600 – 50,400 = 7,200.

**Note 2:**

Particulars	A	B	C
Salary for the purpose of section 80CCD = Basic + DA if terms of employment so provide			
• Basic salary	2,40,000	2,40,000	-
• Dearness allowance forming part of pay @ 75%	1,80,000	1,80,000	-
	4,20,000	4,20,000	-
Deduction u/s 80CCD:			
Deduction u/s 80CCD(1B) for own contribution: Up to Rs. 50,000	50,000	50,000	50,000
Deduction u/s 80CCD(1) for own contribution (on amount not considered u/s 80CCD(1B)):	42,000	35,000	1,00,000
A: 50,000 (1,00,000 – 50,000); deductible up to 42,000 (10% of 80CCD-Salary)			

B: 35,000 (85,000 – 50,000); deductible up to 42,000 (10% of 80CCD-Salary)			
C: 1,15,000 (1,65,000 – 50,000); deductible up to 1,00,000 (20% of GTI)			
Deduction u/s 80CCD(2) for employer's contribution: Up to 10% of 80CCD-Salary (14% for Central Government employer) :: A: Up to 58,800; B: Up to 42,000	48,000	42,000	-
Deduction u/s 80C for own contribution to RPF: Up to Rs. 1,50,000.	57,600	57,600	-
Deduction u/s 80CCC for deposit in pension fund of LIC: Up to Rs. 1,50,000.	45,000	60,000	1,50,000

**B7. 80CCE** – Compute the amount of deduction available under Chapter VIA to Mr. J for AY 2023-24 from the following particulars.

Particulars	Rs.
Deposit in PPF Account of his wife	1,00,000
Tuition fee paid to Modern School for full time education of his daughter	50,000
Repayment of loan for purchase of house property taken from ICICI Bank	30,000
Contribution to approved pension fund of LIC	1,00,000
Contribution to NPS (own contribution)	1,00,000
Contribution to NPS (employer's contribution; Mr. J is employed with a private company)	1,00,000
Salary for purpose of section 80CCD	6,00,000

■ **Computation of deduction under Chapter VIA for AY 2023-24**

Particulars		Eligible	Overall
Deduction u/s 80C:	-	-	-
• Deposit in PPF Account of wife	1,00,000		
• Tuition fee paid to Modern School for full time education of daughter	50,000		
• Repayment of loan for purchase of house property taken from ICICI Bank	30,000		
• Deduction u/s 80C limited to Rs. 1,50,000	1,80,000	1,50,000	
Deduction u/s 80CCC:			
• Contribution to approved pension fund of LIC		1,00,000	
Deduction u/s 80CCD:			
• 80CCD(1B): up to Rs. 50,000			50,000
• 80CCD(1) (on amount not considered u/s 80CCD(1B)): up to Rs. 60,000 (i.e., 10% of salary)		50,000	
• 80CCD(2): up to Rs. 60,000 (10% of salary)			60,000
Deduction u/s 80C, 80CCC and 80CCD(1)		3,00,000	
• Limited to Rs. 1,50,000 u/s 80CCE			1,50,000
<b>Total deduction under Chapter VIA</b>			<b>2,60,000</b>

**B8. 80CCD - CA2014(NOV)** – Determine the eligibility and quantum of deduction under Chapter VIA in case of contribution to notified pension scheme (referred to in section 80CCD) by the employer of Rs. 40,000 for an employee whose basic salary plus dearness allowance is Rs. 3 lakh for the year.

■ Deduction u/s 80CCD(2) if employer is the Government (Central or State) = Employer's contribution up to 42,000, i.e., 14% of salary (basic + DA if terms of employment so provide) = Rs. 40,000.

Deduction u/s 80CCD(2) if employer is not the Government (Central or State) = Employer's contribution up to 30,000, i.e., 10% of salary (basic + DA if terms of employment provide) = Rs. 30,000.

It is assumed that dearness allowance is provided for under the terms of employment.

Deduction u/s 80CCD(2) is not subject to the limit of Rs. 1,50,000 u/s 80CCE.

**B9. 80CCD - CA2017(NOV)** – Mr. Srivastava, aged 40 years, a salaried employee of Nirja Ltd. was contributing to National Pension Scheme Rs. 50,000 every year since 2019 and was claiming deduction u/s 80CCD. In December 2022, he opted out of the pension scheme and withdrew a lump sum amount of Rs. 2 lakh. Is the amount so withdrawn taxable? If yes, how much is the taxable amount?

■ 60% is exempt (Rs. 1,20,000) u/s 10(12A) and the balance is taxable (Rs. 80,000) under the head 'Income from other sources'. However, this amount will not be taxable if Mr. Srivastava uses the amount to purchase an annuity plan in the PY 2022-23 itself.

**DEDUCTION FOR HEALTH & WELLNESS**

**B10. 80D** – Compute the deduction allowable u/s 80D to Sukesh, aged 35 years, for the AY 2023-24 from the following particulars. All persons are resident in India.

Particulars	Rs.
Health insurance premium for self	10,000
Health insurance premium for spouse (not dependent)	8,000
Health insurance premium for minor son (dependent)	2,000
Health insurance premium for major son (not dependent)	3,000
Health insurance premium for younger brother (dependent)	10,000
Contribution to Central Government Health Scheme	4,000
Preventive health check for self and spouse; paid by cash	9,000
Health insurance premium for mother, aged 58 years (not dependent)	30,000
Health insurance premium for father, turned 60 years of age on 1.3.2023 (not dependent)	20,000
Medical expenditure for grandfather, aged 90 years (dependent); he does not have any medical insurance policy	50,000
Medical expenditure for father	15,000

All payments, except preventive health check-up, have been made by credit card.

■ *Computation of deduction allowable u/s 80D to Sukesh for the AY 2023-24*

Particulars	Rs.	Rs.
<b>Payments made for self, spouse &amp; dependent children:</b>		
Health insurance premium for self	10,000	
Health insurance premium for spouse (not dependent)	8,000	
Health insurance premium for minor son (dependent)	2,000	
Health insurance premium for major son (not dependent) – not covered as not dependent	-	
Health insurance premium for younger brother (dependent) – brother is not covered	-	
Contribution to Central Government Health Scheme	4,000	
Preventive health check for self and spouse; paid by cash (up to Rs. 5,000)	5,000	
Deduction u/s 80D to the extent of Rs. 25,000	29,000	25,000
<b>Payments made for parents:</b>		
Health insurance premium for mother, aged 58 years (not dependent)	30,000	
Health insurance premium for father, turned 60 years of age on 1.3.2022 (not dependent)	20,000	
Medical expenditure for grandfather, aged 90 years (dependent) – grandfather is not covered	-	
Medical expenditure for father – not covered since health insurance premium is paid for him	-	
	<b>50,000</b>	
Deduction u/s 80D to the extent of Rs. 25,000	25,000	
Additional deduction of Rs. 20,000 (limit is Rs. 25,000) for father since he is a senior citizen	20,000	45,000
<b>Total deduction u/s 80D</b>		<b>70,000</b>

**B11. 80D** – Compute the deduction allowable u/s 80D to Shailesh, aged 35 years, for the AY 2023-24 from the following particulars.

Particulars	Rs.
Medical insurance premium to insure the health of self and his spouse	20,000
Medical insurance premium to insure the health of his father, aged 65 years, not dependent on him	48,500
Contribution to CGHS	4,000
Preventive health check up of self and spouse (paid in cash)	3,500
Preventive health check up of father (paid by cheque)	4,500

■ *Computation of deduction allowable u/s 80D to Shailesh for the AY 2023-24*

Particulars	Rs.	Rs.
<b>Payments made for self and spouse:</b>		
Medical insurance premium to insure the health of self and his spouse	20,000	
Contribution to CGHS	4,000	
Preventive health check up of self and spouse (paid in cash) (restrict it to Rs. 1,000 since total deduction u/s 80D cannot exceed Rs. 25,000)	1,000	
Deduction u/s 80D to the extent of Rs. 25,000	25,000	25,000
<b>Payments made for father who is a senior citizen (assuming he is resident in India):</b>		

Medical insurance premium to insure the health of his father, aged 65 years, not dependent on him	48,500	
Preventive health check up of father (paid by cheque) (available up to 4,000 (5,000 overall limit – 1,000 applied for self/spouse) but restrict it to Rs. 1,500 since total deduction u/s 80D cannot exceed Rs. 50,000)	1,500	
Deduction u/s 80D to the extent of Rs. 50,000	50,000	50,000
<b>Total deduction u/s 80D</b>		<b>75,000</b>

Note: Overall deduction of Rs. 5,000 for preventive health check-up has been attributed to self/spouse and father in a manner so as to maximize the overall deduction u/s 80D.

**B12. 80D** – Compute the deduction allowable u/s 80D to Shailesh, aged 45 years, for the AY 2023-24 from the following particulars.

Particulars	Rs.
Medical insurance premium to insure the health of self, spouse and dependent children	24,000
Medical insurance premium to insure the health of mother, age 70 years, not dependent on him	35,000
Medical expenditure on father, aged 72 years and not dependent on him, not covered under health insurance policy	22,000
Contribution to CGHS during the year	10,000

■ Computation of deduction allowable u/s 80D to Shailesh for the AY 2023-24

Particulars	Rs.	Rs.
<b>Payments made for self, spouse and dependent children:</b>		
Medical insurance premium to insure the health of self, spouse and dependent children	24,000	
Contribution to CGHS during the year	10,000	
Deduction u/s 80D to the extent of Rs. 25,000	34,000	25,000
<b>Payments made for parents, being senior citizens (assuming they are resident in India)</b>		
Medical insurance premium to insure the health of mother, age 70 years, not dependent on him	35,000	
Medical expenditure on father, aged 72 years and not dependent on him, not covered under health insurance policy	22,000	
Deduction u/s 80D to the extent of Rs. 50,000	57,000	50,000
<b>Total deduction u/s 80D</b>		<b>75,000</b>

**B13-14. 80DD** – Compute the total income of Surendra, a resident individual, for the AY 2023-24 on basis of following particulars.

Particulars	Rs.
Income from salary (computed)	6,00,000
Insurance premium paid on life of spouse (sum assured Rs. 2,00,000; policy issued on 1.10.2015)	25,000
Deposit in the pension fund of LIC	50,000
Mediclaime premium for health of father (65 years of age and resident in India)	30,000
Deposit in approved scheme of LIC for maintenance of handicapped grandfather who is wholly dependent on him. Disability has been certified by the medical authority u/s 80DD/80U.	50,000
Amount spent on medical treatment of his elder brother suffering from disability of 65% certified by the medical authority u/s 80DD/80U. He is mainly dependent on Surendra.	10,000
Deposit in approved scheme of LIC for maintenance of his disabled elder brother	5,000

Compute the total income assuming (A) elder brother has no taxable income, (B) elder brother has taxable income and he claims deduction u/s 80U.

■ Computation of total income for AY 2023-24

Particulars	A	B
Gross total income (Income from salary)	6,00,000	6,00,000
Less: Deductions under Chapter VIA:		
U/s 80C in respect of life insurance premium for spouse: Up to 10% of sum assured.	(20,000)	(20,000)
U/s 80CCC for deposit in pension fund of LIC	(50,000)	(50,000)
U/s 80D for mediclaime premium for father who is a senior citizen: Up to Rs. 50,000	(30,000)	(30,000)
U/s 80DD for deposit in scheme of LIC for handicapped grandfather: Not eligible for grandfather	-	-
U/s 80DD for medical treatment and deposit in scheme of LIC for elder brother: Flat deduction of 75,000 as it is a case of disability (65%). Not allowed in Case B as the brother has claimed deduction u/s 80U in	(75,000)	-



computing his total income.		
<b>Total income</b>	<b>4,25,000</b>	<b>5,00,000</b>

**B15. 80U** – Compute the total income of Shyam for the AY 2023-24 on basis of following particulars. He suffers from a disability referred u/s 80U certified by the authorized doctor to be 90%.

Particulars	Rs.
Dividend from companies	1,00,000
Long term capital gain on sale of shares	50,000

**Computation of total income of Shyam for AY 2023-24**

Particulars	Rs.
Dividend from companies	1,00,000
Long term capital gain on sale of shares	50,000
Gross total income	1,50,000
Less: Deductions under Chapter VIA: Deduction u/s 80U for severe disability of Rs. 1,25,000: Not allowed from LTCCG	(1,00,000)
<b>Total income</b>	<b>50,000</b>

**B16-17. 80DDB** – Compute the deduction available to Shamli, a resident individual, u/s 80DDB for the AY 2023-24. She has incurred expenditure on medical treatment of cancer (specified u/s 80DDB) for her father, wholly dependent on her, in a Government hospital.

Particulars	A	B
Expenditure incurred	1,25,000	75,000
Whether father is a resident of age 60 years or more?	No	Yes
Amount received as insurance claim in respect of the expenditure	20,000	50,000
Amount reimbursed by the employer of Shamli	15,000	30,000

**Computation of deduction u/s 80DDB for AY 2023-24**

Particulars	A	B
Deduction available u/s 80DDB = Expenditure incurred up to a maximum of Rs. 40,000 (Rs. 1,00,000 if father is a senior citizen)	40,000	75,000
Less: Amount received as insurance claim	(20,000)	(50,000)
Less: Amount reimbursed by the employer	(15,000)	(30,000)
Deduction u/s 80DDB	5,000	Nil

Note: Amount reimbursed by the employer will not be taxable as perquisite in the hands of Shamli while computing income under the head 'Salaries' since treatment is in a Government hospital [refer para 47 of Concepts Book].

**DEDUCTION FOR INTEREST ON LOAN**

**B18-20. 80E** – Compute the deduction allowable u/s 80E to Sonu for the AY 2023-24 in each of the following cases.

Particulars	I	II	III
Loan taken for higher education of whom?	Self	His son	His brother
Loan taken for which course?	MCA	MBA	B.Sc
Date when loan taken	1.11.2019	1.3.2015	1.9.2022
Amount of loan	10,00,000	4,00,000	8,00,000
Principal repaid during the PY 2022-23	2,00,000	1,00,000	1,50,000
First year of payment of interest	2020-21	2014-15	2022-23
Interest paid during the PY 2022-23	20,000	15,000	12,000

**Computation of deduction u/s 80E for AY 2023-24**

Particulars	I	II	III
Case I: Deduction allowed of interest paid as PY 2022-23 falls within the 8 year period, starting from PY 2020-21 (in which he starts paying interest)	20,000		
Case II: Not allowed as PY 2022-23 falls after the 8 year period, starting from PY 2014-15 (in which he starts paying interest)		-	

Case III: Deduction is not available on loan taken for both			-
<b>Deduction u/s 80E</b>	<b>20,000</b>	-	-

**B21-22. 80EEA** – Gyan purchased a residential house property on 10.4.2022 for Rs. 49 lakh (fair market value Rs. 50 lakh) by utilizing housing loan taken for Rs. 40 lakh. The loan was sanctioned on 1.3.2022 and disbursed on 1.4.2022. Interest for the PY 2022-23 amounted to Rs. 3 lakh. Gyan repaid Rs. 2 lakh during the PY on account of principal. This was the first house which Gyan owned and which he used for his own residence. His income from salary (computed) was Rs. 5 lakh. Compute his total income for AY 2023-24 if (A) stamp duty value of property was Rs. 40 lakh and loan was taken from Bank of India, (B) stamp duty value of property was Rs. 48 lakh and loan was taken from PQR Pvt. Ltd., a NBFC.

Computation of total income of Gyan for AY 2023-24

Particulars	A	B
Income from salary (computed)	5,00,000	5,00,000
Income from house property = NAV of NIL — Interest payable u/s 24(b) (up to 2 lakh) = 2 lakh. This can be set off u/s 71 against income from salary up to 2 lakh.	(2,00,000)	(2,00,000)
Gross total income	3,00,000	3,00,000
Less: Deductions under Chapter VIA:		
U/s 80C on account of repayment of housing loan of 2 lakh up to the limit of 1.5 lakh	(1,50,000)	(1,50,000)
U/s 80EEA on account of interest payable on housing loan (3 lakh – 2 lakh claimed u/s 24(b)) up to the limit of Rs. 1.5 lakh. Not allowed in case B since SDV is > 45 lakh and loan is not taken from a bank or a housing finance company.	(1,00,000)	-
<b>Total income</b>	<b>50,000</b>	<b>1,50,000</b>

**B23-24. 80EEB** – Gyani purchased an electric vehicle using a loan taken for Rs. 20 lakh. Compute the deduction allowable u/s 80EEB for AY 2023-24 if (A) loan was sanctioned by a deposit taking NBFC on 15.3.2019 @ 10% p.a., disbursed on 5.4.2019 and vehicle was purchased on 15.4.2019 or (B) loan was sanctioned by State Bank of India on 15.9.2020 @ 10% p.a., disbursed on 30.9.2020 and vehicle was purchased on 15.10.2020. The entire loan was outstanding as on 31.3.2023.

Computation of deduction u/s 80EEB for AY 2023-24

Particulars	Rs.
Case A: Loan is sanctioned before PY 2019-20. Deduction is not available.	Nil
Case B: Loan is sanctioned by a bank during PY 2020-21. Interest payable for PY 2022-23 is Rs. 2 lakh. Deduction is allowed up to Rs. 1,50,000	1,50,000

### DEDUCTION FOR DONATIONS

**B25. 80G** – Compute the total income of Ram from the following particulars

Particulars	Rs.
Business income	6,00,000
Long term capital gain	1,00,000
Deposit in PPF Account of child	1,50,000
Donation to PM National Relief Fund by cheque	50,000
Donation to Rajiv Gandhi Foundation by cheque	60,000
Donation to Government for promoting family planning, paid by NEFT	30,000
Donation to Indian Olympic Association by NEFT	20,000
Donation to a public charitable trust (registered u/s 80G) by RTGS	30,000
Donation of rice bags to a notified temple (value of rice)	10,000
Donation to Zila Saksharta Samiti in cash	15,000

Computation of total income of Ram

Particulars	Rs.
Business income	6,00,000
Long term capital gain	1,00,000
Gross total income	7,00,000
Less: Deduction under Chapter VIA:	

• U/s 80C for deposit in PPF	(1,50,000)
• U/s 80G (see Note)	(1,17,500)
<b>Total income</b>	<b>4,32,500</b>

Note:

Particulars	Rs.
<b>Donations eligible for deduction without qualifying limit</b>	
• PM National Relief Fund @ 100%	50,000
• Zila Saksharta Samiti @ 100%:- Not eligible since it exceeds Rs. 2,000 and is paid in cash	-
• Rajiv Gandhi Foundation @ 50%	30,000
<b>(A)</b>	<b>80,000</b>
<b>Donations eligible for deduction subject to qualifying limit</b>	
Eligible donations:	
• Donation to Government for promoting family planning	30,000
• Indian Olympic Association (not eligible since assessee is not a company)	-
• Charitable trust	30,000
• Rice bags to a notified temple (donation in kind is not eligible)	-
	<b>60,000</b>
Adjusted total income:	
• Gross total income	7,00,000
• Less: LTCG	(1,00,000)
• Less: Deductions under Chapter VIA (except u/s 80G): Deduction u/s 80C	(1,50,000)
	<b>4,50,000</b>
Qualifying limit = 10% of Adjusted Total Income	45,000
Lower of amount of eligible donations (60,000) or qualifying amount (45,000)	45,000
Deduction allowed:	
• Donation to Government for promoting family planning @ 100%	30,000
• Donation to charitable trust @ 50% of Rs. 15,000 (45,000 qualifying limit – 30,000)	7,500
<b>(B)</b>	<b>37,500</b>
<b>Total deduction u/s 80G = A + B</b>	<b>1,17,500</b>

**B26-27. 80GGA/80GGC** - From the following particulars, compute the total income for the AY 2023-24 of Mr. C if (A) his business income (without deducting the below listed items) is Rs. 6,00,000 or (B) his salary income (computed) is Rs. 6,00,000.

Particulars	Rs.
Donation to PM CARES Fund by cheque	50,000
Donation to Indira Gandhi Memorial Trust by cash	25,000
Donation to JKL College (approved u/s 35(1)(ii)) for scientific research (paid by cheque)	15,000
Donation to Rural Development Fund (notified u/s 35CCA) (paid by cheque)	10,000
Donation to local political party (paid by cash)	4,000
Donation to Hindustan Janta Party (paid by cheque)	14,000

■ *Computation of total income of Mr. C for AY 2023-24*

Particulars	A	B
Income from salary (computed)		6,00,000
Income from business	6,00,000	-
Less: Donation to JKL College u/s 35(1)(ii)	(15,000)	-
Less: Donation to Rural Development Fund u/s 35CCA	(10,000)	-
	<b>5,75,000</b>	<b>-</b>
Gross total income	<b>5,75,000</b>	<b>6,00,000</b>
Less: Deductions under Chapter VIA:		
U/s 80G: 100% of donation to PM CARES Fund. Donation to Indira Gandhi Memorial Trust by cash exceeding 2,000 is not eligible.	(50,000)	(50,000)

U/s 80GGA: Donation to JKL College and Rural Development Fund	-	(25,000)
U/s 80GGC: Donation to local political party and HJP. Donation in cash is not eligible	(14,000)	(14,000)
<b>Total income</b>	<b>5,11,000</b>	<b>5,11,000</b>

**DEDUCTION FOR RENT**

**B28. 80GG – MASTER QUESTION** - Compute the total income of Jogi for AY 2023-24 from the following particulars.

Particulars	A	B
Income from salary (computed) from XYZ Pvt. Ltd. (Jogi is not in receipt of HRA)	6,00,000	
Income from profession (computed)		6,00,000
Short term capital gain from sale of gold	50,000	50,000
Short term capital gain from sale of equity shares (STT paid on sale)	40,000	40,000
Long term capital gain from sale of plot of land	1,00,000	1,00,000
Deposit in PPF account of child	1,20,000	1,20,000
Deposit in LIC pension fund	50,000	50,000
Mediclaime premium paid for self	35,000	35,000
Donation to Swachh Bharat Kosh (paid by cheque)	30,000	3,00,000
Rent paid for house in Kochi where he resides and carries on employment/profession	20,000 p.m.	10,000 p.m.
Rent paid for house in Jodhpur where his spouse works (she owns a house in Varanasi)	10,000 p.m.	10,000 p.m.

Jogi does not own any house.

■  
Computation of total income of Jogi for AY 2023-24

Particulars	A	B
Income from salary (computed) from XYZ Pvt. Ltd.	6,00,000	-
Income from profession (computed)	-	6,00,000
Short term capital gain from sale of gold	50,000	50,000
Short term capital gain from sale of equity shares (STT paid on sale)	40,000	40,000
Long term capital gain from sale of plot of land	1,00,000	1,00,000
Gross total income	7,90,000	7,90,000
Less: Deduction under Chapter VIA:		
U/s 80C & 80CCC: Deposit in PPF account of child and LIC pension fund; allowed up to Rs. 1,50,000 u/s 80CCE.	(1,50,000)	(1,50,000)
U/s 80D: Mediclaime premium for self; allowed up to Rs. 25,000	(25,000)	(25,000)
U/s 80G: Donation to Swachh Bharat Kosh; allowed @ 100% without any qualifying limit	(30,000)	(3,00,000)
U/s 80GG: See note	(60,000)	(43,750)
<b>Total income</b>	<b>5,25,000</b>	<b>2,71,250</b>

Note: Jogi is entitled to deduction u/s 80GG, as he is not in receipt of HRA, he has incurred expenditure on payment of rent occupied by him for his own residence at Kochi, he and his spouse does not own any residential accommodation in Kochi and he does not own any self-occupied accommodation at any other place the annual value of which is taken to be nil. Deduction is computed below. Deduction is computed as given below.

Particulars	A	B
Adjusted total income (ATI):		
Gross total income	7,90,000	7,90,000
Less: STCG from sale of equity shares (STT paid on sale) u/s 111A	(40,000)	(40,000)
Less: LTCG from sale of plot of land u/s 112	(1,00,000)	(1,00,000)
Less: Deductions under Chapter VIA (except u/s 80GG): Deduction u/s 80C, 80CCC, 80D, 80G	(2,05,000)	(4,75,000)
	4,45,000	1,75,000
Deduction u/s 80GG = Lower of the following:		
(a) Rs. 5,000 per month	60,000	60,000
(b) Rent paid – 10% of ATI = 1,95,500 for Case A (2,40,000 – 44,500) and 1,02,500 for B (1,20,000 – 17,500)	1,95,500	1,02,500
(c) 25% of ATI	1,11,250	43,750
<b>Deduction u/s 80GG</b>	<b>60,000</b>	<b>43,750</b>

### DEDUCTIONS FOR INTEREST INCOME

**B29-30. 80TTA, 80TTB** – Compute the total income of Mr. Jain for AY 2023-24 from the following particulars. All figures are gross of TDS, wherever applicable.

Particulars	A	B
Profile of Mr. Jain	Resident; 35 years	Resident; 65 years
Income under the head 'Salary' (computed)	1,00,000	1,00,000
Income from house property	1,00,000	-
Income from gambling	2,45,000	2,45,000
Deposit in PPF Account of self	1,50,000	1,50,000
Deposit in notified NABARD bonds	30,000	30,000
Interest on savings bank account (individual) with post office	18,500	18,500
Interest on Recurring Deposit with co-operative bank	10,000	10,000
Interest on fixed deposit with State Bank of India	30,000	30,000

■ *Computation of total income of Mr. Jain for AY 2023-24*

Particulars	A		B	
Income under the head 'Salary' (computed)		1,00,000		1,00,000
Income from house property		1,00,000		-
Income from other sources:				
• Interest on savings bank account (individual) with post office (less 3,500 exempt u/s 10)	15,000		15,000	
• Interest on Recurring Deposit with co-operative bank	10,000		10,000	
• Interest on fixed deposit with State Bank of India	30,000		30,000	
• Income from gambling	2,45,000	3,00,000	2,45,000	3,00,000
Gross total income		5,00,000		4,00,000
Less: Deduction under Chapter VIA:				
U/s 80C: Deposit in PPF account and notified NABARD bonds: Allowed up to 1,50,000)	1,50,000		1,50,000	
U/s 80TTA in Case A (as Mr. Jain is not a senior citizen): Eligible interest = 15,000 on POSB A/c. Deduction limited to Rs. 10,000.	10,000			
U/s 80TTB in Case B (as Mr. Jain is a senior citizen): Eligible interest = 15,000 on POSB + 10,000 on RD + 30,000 on FD = Rs. 55,000. Deduction limited to Rs. 50,000.			50,000	
Deduction under chapter VIA (restricted to the amount of GTI excluding income from gambling)	1,60,000	(1,60,000)	2,00,000	(1,55,000)
<b>Total income</b>		<b>3,40,000</b>		<b>2,45,000</b>

### DEDUCTIONS FOR CERTAIN INCOMES

**B31. 80JAA - CA2019(NOV) (modified)** – MASTER QUESTION - M/s ABC and Co., a partnership firm, started its business of manufacture of beverages on 1.4.2022. During the PY 2022-23, it appointed the following persons:

Date of appointment	No. of employees	Designation	Emoluments per person/month
1.4.2022	25	Accounting and office staff	22,000
1.5.2022	25	Technical staff	29,200
1.8.2022	200	Helpers	22,000
1.9.2022	100	Supervisors	25,000
Total	350		

Determine the amount of deduction available, if any, for AY 2023-24, if turnover of ABC and Co for PY 2022-23 is Rs. 6 crore and tax audit u/s 44AB is applicable and all the employees (except helpers) participate in the recognized provident fund. All emoluments are paid by account payee cheque, except accounting and office staff who are paid in cash during April and May.

What would be your answer if business of the firm was of manufacture of leather products instead of beverages?

(assume that all other requirements under the relevant section, relating to the aforesaid deduction, have been fulfilled)

■ The firm is entitled to deduction u/s 80JJAA since it is liable to tax audit and has employed 350 employees during the year. Being the first year of its business, emoluments paid or payable to employees during the PY 2022-23 is eligible for deduction.

*Computation of deduction u/s 80JJAA for AY 2023-24*

Particulars	Beverage business	Leather business
Total number of employees employed during the PY	350	350
Less: Helpers who do not participate in RPF	(200)	(200)
Less: Technical staff whose emolument exceeds Rs. 25,000 p.m.	(25)	(25)
Less: Supervisors since they are employed for 212 days during the PY (i.e., less than 240 days for beverage business. However, if they continue to be employed for 240 days in the next year, deduction can be claimed in the next year). However, they are not excluded in case of leather business since the threshold is 150 days.	(100)	-
<b>Number of additional employees</b>	<b>25</b>	<b>125</b>
Additional employee cost:		
Beverage business: 25 × 12 months × 22,000 pm (accounting and office staff)	66,00,000	
Leather business: (25 × 12 months × 22,000 pm for accounting and office staff) + (100 × 7 months × 25,000 pm for supervisors)		2,41,00,000
<b>Deduction u/s 80JJAA = 30% of additional employee cost</b>	<b>19,80,000</b>	<b>72,30,000</b>

**B32. 80JJAA** – Sadik carries on retail business in garments. During the PY 2022-23, the following movements happened in respect of people employed by him.

Date of movement	No. of employees	Designation	Emoluments per person/month	Movement
1.6.2022	5	Store keeper	22,000	Resigned
1.7.2022	7	Junior managers	25,000	Employed
15.7.2022	1	General manager	30,000	Employed

Number of employees as on 31.3.2022 were 50. Determine the amount of deduction available u/s 80JJAA for AY 2023-24, if turnover of business for PY 2022-23 was Rs. 2 crore and total cash receipts of business were 7% of total receipts for the year. Assume that all other requirements under the relevant section, relating to the aforesaid deduction, have been fulfilled.

■ Sadik is entitled to deduction u/s 80JJAA since he is liable to tax audit as turnover is more than Rs. 1 crore (1 crore limit applies u/s 44AB since cash receipts are > 5% of total receipts) and there is a net increase in the number of employees over that on 31.3.2022.

*Computation of deduction u/s 80JJAA for AY 2023-24*

Particulars	Rs.
Number of employees employed as on 31.3.2022	50
Less: Number of employees resigned on 1.6.2022	(5)
Number of employees on 1.6.2022	45
Add: Number of junior managers employed on 1.7.2022	7
Add: General manager employed on 15.7.2022 (ineligible since emolument is > 25,000 pm)	-
	52
<b>Number of additional employees</b>	<b>2</b>
Additional employee cost:	
2 × 9 months × 25,000 pm (junior managers)	4,50,000
<b>Deduction u/s 80JJAA = 30% of additional employee cost</b>	<b>1,35,000</b>

**B33-35. 80QQB** – Sarthak is a professional author of scientific books. Determine the deduction allowable to him for AY 2023-24 in respect of royalty income earned by him, in the following situations.

Particulars	A	B	C
Value of books sold	50,00,000	50,00,000	-
% royalty on books sold	20%	12%	-
Lump sum payment in lieu of all rights in the book	-	-	10,00,000
Royalty is earned from a foreign country: Income repatriated to India by 30.9.2023	-	80%	-

■

## Computation of deduction u/s 80QQB for AY 2023-24

Particulars	A	B	C
Gross royalty income	10,00,000	6,00,000	10,00,000
After ignoring gross income in excess of 15% of value of books sold (a)	7,50,000	6,00,000	-
After ignoring income not repatriated by 30.9.2023 (b)	-	4,80,000	-
Eligible income = Lower of (a) or (b) for Cases A & B and lump sum payment for Case C	7,50,000	4,80,000	10,00,000
<b>Deduction u/s 80QQB = Lower of eligible income or Rs. 3 lakh</b>	<b>3,00,000</b>	<b>3,00,000</b>	<b>3,00,000</b>

**COMPREHENSIVE**

**B36. COMPREHENSIVE - CA2019(MAY)** – Prakash is retired Government officer aged 65 years, resides in Cochin, and has derived the following income:

- Pension Rs. 6,70,000
- Interest from bank on fixed deposit (gross) Rs. 55,000

Compute his total income for AY 2023-24 from the following particulars:

1. Life insurance premium paid by cheque Rs. 22,500 for insurance of his life. The policy was taken on 8.9.2017 and the sum assured is Rs. 2,00,000.
2. Premium of Rs. 26,000 paid by cheque for health insurance of self and his wife.
3. Rs. 1,500 paid in cash for his health check up and Rs. 4,500 paid through cheque for preventive health check up of his parents, who are senior citizens.
4. Paid interest of Rs. 6,500 on loan taken from bank for MBA course pursued by his daughter.
5. A sum of Rs. 15,000 donated in cash to an institution approved for the purpose of section 80G for promoting family planning.

## Computation of total income of Prakash for AY 2023-24

Particulars	Rs.	Rs.	Rs.
<b>Income under the head 'Salaries':</b>			
Pension		6,70,000	
Less: Standard deduction u/s 16(ia)		(50,000)	6,20,000
<b>Income from other sources:</b>			
Interest from bank on FD (gross)			55,000
<b>Gross total income</b>			<b>6,75,000</b>
Less: Deduction under Chapter VIA:			
U/s 80C: On premium on LIP; restricted to 10% of sum assured		20,000	
U/s 80D:			
• For self and wife: Premium paid by cheque for self and wife + preventive health check up for self (cash is eligible); allowed up to Rs. 50,000 assuming Prakash is a resident and, thus, a senior citizen	27,500		
• For parents: Preventive health check (overall limit is Rs. 5,000)	3,500	31,000	
U/s 80E: Interest on loan from bank for MBA pursued by daughter (assuming PY 2022-23 is within the 8-year period starting from the year in which he started paying interest)		6,500	
U/s 80G: Donation to approved institution: Cash payment > Rs. 2,000 is ineligible		-	
U/s 80TTB: Interest on Bank FD (assuming Prakash is a resident and, thus, a senior citizen); allowed up to Rs. 50,000		50,000	
			(1,07,500)
<b>Total income</b>			<b>5,67,500</b>

**B37. COMPREHENSIVE - CA2017(MAY) (modified)** – Mr. Rohan, a resident individual has gross total income of Rs. 7,50,000 comprising of income from salary and income from house property for AY 2023-24. He provides the following information:

- Paid Rs. 70,000 towards premium on life insurance policy of his handicapped son (80U disability). Sum assured Rs. 4,00,000 and date of issue policy 1.8.2020.
- Deposited Rs. 90,000 in tax saver deposit in the name of his major son in State Bank of India.
- Contributed Rs. 25,000 to the Clean Ganga Fund, set up by the Central Government.
- He took mediclaim policy for self and spouse and paid Rs. 81,000 as lump sum premium for three years. He incurred medical expenditure of Rs. 65,000 on his mother, aged 70 years (resident). His mother did not have a mediclaim policy.

- His father earned interest on fixed deposits with Dena Bank of Rs. 1,50,000.
- Compute the total income and deduction under Chapter VIA for AY 2023-24.

■

*Computation of total income of Mr. Rohan for AY 2023-24*

Particulars	Rs.	Rs.
Gross total income		7,50,000
Less: Deduction under Chapter VIA:		
Section 80C:		
• Life insurance premium: Premium is deductible up to 15% of sum assured in case of son with disability referred u/s 80U since policy is taken after 31.3.2013	60,000	
• Tax saver deposit in the name of major son: Not eligible	-	
		(60,000)
Section 80D:		
• Health insurance premium for self and spouse: 1/3 <sup>rd</sup> is deductible in PY 2022-23 since policy is in force for 3 years; this is restricted to 25,000.	25,000	
• Medical expenditure for mother, being senior citizen, since no health insurance premium has been paid for her: Restricted to 50,000.	50,000	
		(75,000)
Section 80G: Contribution to Clean Ganga Fund: Deductible @ 100%		(25,000)
Section 80TTA/80TTB: Not eligible since interest on fixed deposits is the income of father; not Rohan		-
<b>Total income</b>		<b>5,90,000</b>

**B38. COMPREHENSIVE - CA2015(MAY)** – Compute the eligible deduction under Chapter VIA for AY 2023-24 of Ms. Roma, who has a gross total income of Rs. 15,00,000 and provides the following information about her investments/payments during the PY 2022-23.

Particulars	Rs.
Life insurance premium paid (policy taken on 1.1.2012 and sum assured is Rs. 2,00,000)	45,000
Public Provident Fund contribution	90,000
Repayment of housing loan to Bhartiya Mahila Bank, Bangalore	30,000
Payment to LIC Pension Fund	25,000
Mediclaime policy taken for self, wife and dependent children; premium paid	26,000
Medical insurance premium paid for parents (senior citizen)	55,000

■

*Computation of deduction u/c VIA for Ms. Roma for AY 2023-24*

Particulars	Rs.	Rs.
Deduction u/s 80C:		
• Life insurance premium: Allowed up to 20% of sum assured since policy is issued before 1.4.2012	40,000	
• PPF contribution	90,000	
• Repayment of housing loan to bank	30,000	
	1,60,000	
Deduction u/s 80C limited to Rs. 1,50,000	1,50,000	
Deduction u/s 80CCC for payment to LIC pension fund	25,000	
	1,75,000	
Deduction u/s 80C and 80CCC restricted to Rs. 1,50,000 by virtue of section 80CCE		1,50,000
Deduction u/s 80D:		
• Health insurance premium for self, wife and dependent children: allowed up to Rs. 25,000	25,000	
• Health insurance premium for parents (allowed up to Rs. 50,000 for senior citizen)	50,000	
	75,000	75,000
<b>Deduction under Chapter VIA</b>		<b>2,25,000</b>



**B39. COMPREHENSIVE – MASTER QUESTION** - Rudra, a resident of age 40 years and residing in Jamnagar, has provided the following particulars of his income, investments and payments for the PY 2022-23. He filed his return of income for AY 2023-24 before the due date of filing u/s 139(1). Compute his total income for AY 2023-24. He has not opted to be governed by section 115BAC. He has the following family members (all are resident in India during the PY 2022-23):

Particulars	Spouse	Father	Mother	Son	Son	Daughter	Daughter
Name	Rashi	Mr. Swagat	Mrs. Sheila	Swayam	Rohan	Saanvi	Meena
Age	39	65	59	19	19	16	16
Dependent on Rudra?	No	No	No	Yes	No	Yes	Yes

Particulars	Rs.
<b>PARTICULARS OF INCOME</b>	
Particulars of salary income from BCD Ltd., Jamnagar:	
• Basic salary	10,00,000
• Dearness allowance (50% is as per terms of employment)	5,00,000
• Perquisites (taxable value)	1,00,000
Income from part time profession of engineering consulting	15,00,000
• Includes royalty of Rs. 5 lakh, from writing books on engineering, earned from a foreign publisher @ 20% of sale value; 55% was repatriated to India in foreign exchange by 30.9.2023	
• Includes royalty of Rs. 4 lakh in respect of patent registered under his name on 1.8.2014.	
Long term capital gain on transfer of rural agricultural land in Jaipur	5,00,000
Short term capital gain on sale of equity shares (STT paid on sale)	3,00,000
Interest on 5 year term deposit with State Bank of India	50,000
Interest on 5 year Post Office Time Deposit Account	35,000
Interest on Post Office Savings Account (individual account)	18,500
<b>PARTICULARS OF INVESTMENTS AND PAYMENTS</b>	
Life insurance premium paid by cheque for self (policy issued on 20.3.2012 for sum assured of Rs. 3,00,000)	35,000
Life insurance premium paid for Swayam (suffering from disability certified u/s 80U to the extent of 50%) (policy issued on 20.3.2017 for sum assured of Rs. 2,00,000)	35,000
Life insurance premium paid for father (policy issued on 20.3.2011 for sum assured of Rs. 1,00,000)	15,000
Rudra's contribution to recognized provident fund (matching contribution made by his employer)	60,000
Deposit in PPF Account of younger brother	70,000
Deposit in Sukanya Samriddhi Account in the name of Saanvi	10,000
Purchase of NSC (VIII issue) certificates	30,000
Fee paid to school for Saanvi's education (tuition fee Rs. 50,000 and development fee Rs. 20,000)	70,000
Tuition fee paid to the college in Germany for Meena for pursuing MBA	1,00,000
Deposit in 5 year term deposit with State Bank of India	15,000
Investment in notified bonds of NABARD	10,000
Deposit in 5 year Post Office Time Deposit Account	5,000
Deposit in LIC pension fund	40,000
Own contribution to NPS	2,00,000
Employer's contribution to NPS (not included in the particulars of salary given above)	1,50,000
Mediclaim insurance premium for self and spouse, paid by bearer cheque	20,000
Health insurance premium for Meena, paid by crossed cheque	10,000
Health insurance premium for Saanvi, paid by cash	8,000
Medical insurance premium for Rohan, paid by NEFT	5,000
Medical insurance premium for younger brother, paid by cash	7,000
Preventive health check up for self and spouse, paid by cash	3,000
Preventive health check up of mother, paid by cheque	4,000
Medical insurance premium for mother, paid by account payee cheque	20,000
Medical expenditure on father, paid by cheque (he does not have a mediclaim policy)	40,000
Medical expenditure on grandfather, paid by cheque (he does not have a mediclaim policy)	25,000
Expenditure on medical treatment and rehabilitation of Swayam	30,000

Deposit in approved scheme of LIC for maintenance of Swayam	20,000
Expenditure on medical treatment of Saanvi for a life threatening disease specified u/s 80DDB (Rs. 35,000 was reimbursed by the insurance company)	50,000
Interest paid to ICICI Bank for loan taken for MBA education of Meena in Germany (Rs. 90,000 was repaid during the year on account of principal). Loan was taken on 1.5.2014 and interest payment started from the FY 2014-15.	60,000
Interest paid to a deposit taking NBFC on loan taken to purchase electric vehicle for personal use. Loan was sanctioned on 1.6.2021 for Rs. 15 lakh @ 12%. Entire loan amount was outstanding as on 31.3.2023.	1,80,000
Interest on loan taken from Bank of India to purchase a house in Jamnagar (occupied for own residence). Loan was sanctioned on 20.3.2022 and house was purchased on 10.4.2022 for Rs. 50 lakh (SDV and FMV on this date: Rs. 40 lakh and Rs. 51 lakh, respectively). This was the first house he purchased in his lifetime. Rs. 3,00,000 of principal amount of loan was to be repaid to the bank during the PY 2022-23 out of which Rudra could pay Rs. 2,50,000. Stamp duty and registration charges paid during the year for transfer of the house to Rudra were Rs. 50,000. Some repairs were carried out on 1.1.2023 costing Rs. 30,000.	2,75,000
Donation to Prime Minister's National Relief Fund, paid by cheque	30,000
Donation to Prime Minister's Drought Relief Fund, paid by cheque	10,000
Donation to Government to be utilized for promoting family planning, paid by NEFT	1,00,000
Donation to a charitable trust approved u/s 80G, paid by cheque	1,25,000
Donation for renovation of a temple notified u/s 80G, paid in cash	15,000
Donation to a college, approved u/s 35, for undertaking scientific research, paid by cash	12,000
Donation to Rashtriya Lok Dal, a political party, in cash	10,000
Donation to an electoral trust, by cheque	5,000
Expenditure on advertising in pamphlet of BJP, a political party, paid by cheque	15,000
Rent paid for a furnished house in Delhi in which his close friend stays. Rudra is not in receipt of HRA from his employer.	1,20,000

■

**Computation of total income of Rudra for AY 2023-24**

Particulars	Rs.	Rs.	Rs.
<b>Income from salary</b>			
Basic salary		10,00,000	
Dearness allowance		5,00,000	
Employer's contribution to NPS		1,50,000	
Perquisites (taxable value)		1,00,000	
		17,50,000	
Less: Standard deduction u/s 16(ia)		(50,000)	
		17,00,000	17,00,000
<b>Income from house property</b>			
Interest on loan for purchase of self occupied property in Jamnagar: Allowed up to Rs. 2 lakh u/s 24(b). Loss under this head can be set off up to Rs. 2 lakh against income under other heads u/s 71 (refer para 190 of Concepts Book).			(2,00,000)
<b>Profits and gains of business or profession:</b>			
Part time profession of engineering consulting			15,00,000
<b>Capital gain:</b>			
Long term capital gain on transfer of rural agricultural land in Jaipur (not taxable as it is not a capital asset)		-	
Short term capital gain on sale of equity shares (STT paid on sale) (u/s 111A)		3,00,000	
		3,00,000	3,00,000
<b>Income from other sources</b>			
Interest on 5 year term deposit with State Bank of India		50,000	
Interest on 5 year Post Office Time Deposit Account		35,000	
Interest on Post Office Savings Account (individual A/c) = 18,500 – Rs. 3,500 exempt u/s 10		15,000	
		1,00,000	1,00,000
<b>Gross total income</b>			<b>34,00,000</b>

<b>Less: Deduction under Chapter VIA:</b>			
U/s 80C (Note 1)	1,50,000		
U/s 80CCC: Deposit in LIC Pension Fund Rs. 40,000 (allowable up to Rs. 1,50,000)	40,000		
U/s 80CCD(1) (Note 2)	1,25,000		
	3,15,000		
Allowed up to Rs. 1,50,000 u/s 80CCE	1,50,000		
U/s 80CCD(1B) and 80CCD(2) (Note 2)	1,75,000		
	3,25,000	3,25,000	
U/s 80D (Note 3)		75,000	
U/s 80DD: Medical expenditure and deposit in approved scheme for Swayam who is a dependent child suffering with 50% disability (assuming Swayam has not claimed deduction u/s 80U in computing his total income): Flat deduction of Rs. 75,000		75,000	
U/s 80ddb: Expenditure on medical treatment of specified disease for dependent child: Rs. 50,000, limited to Rs. 40,000 less Rs. 35,000 reimbursed by the insurance company		5,000	
U/s 80E: Interest paid to ICICI Bank for loan taken for MBA education of Meena in Germany. No deduction since PY 2022-23 is not within the 8-year period from PY 2014-15 (in which Rudra started paying interest). Repayment of principal is not eligible.		-	
U/s 80EEB: Interest paid to a deposit taking NBFC on loan taken to purchase electric vehicle for personal use: Loan is sanctioned during PY 2021-22; deduction is allowed up to Rs. 1,50,000		1,50,000	
U/s 80EEA (Note 4)		75,000	
U/s 80GGA: Donation to college approved u/s 35, paid by cash (not allowed since Rudra has PGBP income and also since amount > Rs. 2,000 is paid in cash; it is not allowed even in computing PGBP by virtue of section 40A(3) since amount > Rs.10,000 is paid in cash)		-	
U/s 80GGC: Donation to RLD in cash is not allowed; donation to electoral trust by cheque is allowed; expenditure on advertisement in pamphlet of BJP is not allowed (it is also disallowed u/s 37(2B) in computing income under the head PGBP)		5,000	
U/s 80GG: Rent is not paid by Rudra for a self occupied house and also he resides in his own house in Jamnagar where he works; thus, deduction is not allowed		-	
U/s 80TTA: Interest on PO Savings Account of Rs. 15,000 is allowed up to Rs. 10,000; deduction is not allowed on time deposits		10,000	
U/s 80QQB (Note 5)		2,75,000	
U/s 80RRB: Royalty from patent registered on or after 1.4.2003, allowed up to Rs. 3,00,000		3,00,000	
U/s 80G (Note 6)		1,75,250	
Deduction under Chapter VIA (not allowed on income by way of STCG u/s 111A)		14,70,250	(14,70,250)
<b>Total income</b>			<b>19,29,750</b>

**Note 1: Deduction u/s 80C**

Particulars	Rs.
Life insurance premium paid by cheque for self (policy issued on 20.3.2012 for sum assured of Rs. 3,00,000): Allowed up to 20% of sum assured	35,000
Life insurance premium paid for Swayam (suffering from disability certified u/s 80U to the extent of 50%) (policy issued on 20.3.2017 for sum assured of Rs. 2,00,000): Allowed up to 15% of sum assured	30,000
Life insurance premium paid for father: Not eligible	-
Rudra's contribution to recognized provident fund: Allowed for Rudra's contribution. Contribution by employer is taken into account while computing salary income (it is exempt since it is up to 12% of 12,50,000, being Basic salary and DA (as per terms of employment)).	60,000
Deposit in PPF Account of younger brother: Not eligible	-
Deposit in Sukanya Samridhi Account in the name of Saanvi	10,000
Purchase of NSC (VIII issue) certificates	30,000
Fee paid to school for Saanvi (tuition fee Rs. 50,000 and development fee Rs. 20,000): Only tuition fee is allowed	50,000
Tuition fee paid to college in Germany for Meena for pursuing MBA: Not allowed as institution is situated outside India	-
Deposit in 5 year term deposit with State Bank of India	15,000

Investment in notified bonds of NABARD	10,000
Deposit in 5 year Post Office Time Deposit Account	5,000
Repayment of housing loan and payment of stamp duty and registration charges (see Note 4)	3,00,000
	5,45,000
Eligible deduction up to Rs. 1,50,000	1,50,000

**Note 2: Deduction u/s 80CCD**

Particulars	Rs.
<i>Salary for the purpose of section 80CCD:</i>	
Basic salary	10,00,000
Dearness allowance forming part of pay @ 50%	2,50,000
	12,50,000
<i>Deduction u/s 80CCD:</i>	
Deduction u/s 80CCD(1B) for own contribution: Deductible up to Rs. 50,000	50,000
Deduction u/s 80CCD(1) for own contribution (on amount not considered u/s 80CCD(1B)): 1,50,000 (2,00,000 – 50,000); deductible up to 1,25,000 (10% of 80CCD-Salary)	1,25,000
Deduction u/s 80CCD(2) for employer's contribution: Rs. 1,50,000; deductible up to 10% of 80CCD-Salary	1,25,000

**Note 3: Deduction u/s 80D**

Particulars	Rs.	Rs.	Rs.
<i>For self, spouse and dependent children:</i>			
• Mediciam insurance premium for self and spouse, paid by bearer cheque		20,000	
• Health insurance premium for Meena, paid by crossed cheque		10,000	
• Health insurance premium for Saanvi, paid by cash: Cash payment not allowed		-	
• Medical insurance premium for Rohan, paid by NEFT: Not allowed since Rohan is not dependent on Rudra		-	
• Medical insurance premium for younger brother, paid by cash: Not eligible for brother		-	
• Preventive health check up for self and spouse, paid by cash (overall limit of Rs. 5,000 remaining after exhausting for mother)		1,000	
Allowed up to Rs. 25,000		31,000	25,000
<i>For parents:</i>			
• Preventive health check up of mother, paid by cheque	4,000		
• Medical insurance premium for mother, paid by account payee cheque	20,000		
Allowable up to Rs. 25,000	24,000	24,000	
• Medical expenditure on father (a senior citizen), paid by cheque (he does not have a mediclaim policy): Allowable up to Rs. 50,000	40,000		
• Medical expenditure on grandfather, paid by cheque (he does not have a mediclaim policy): Not eligible for grandfather	-		
	40,000	40,000	
Allowed overall up to Rs. 50,000		64,000	50,000
<b>Total deduction u/s 80D</b>			<b>75,000</b>

**Note 4: Purchase of residential house in Jamnagar**

Particulars	Rs.	Rs.
Deduction u/s 80EEA: Interest on loan taken from Bank of India: Deduction is allowable as loan is sanctioned during PY 2021-22, SDV is not > Rs. 45 lakh and Rudra does not own any house on 20.3.2022. Interest remaining after deduction of Rs. 2,00,000 u/s 24(b) is Rs. 75,000. This is allowed (as it is within the limit of Rs. 1,50,000)		75,000
<i>Deduction u/s 80C:</i>		
• Repayment of principal amount to bank	2,50,000	
• Stamp duty and registration charges paid	50,000	
• Repairs: Not eligible	-	
Taken to Note 1 on section 80C	3,00,000	3,00,000

**Note 5: Deduction u/s 80QQB**

Particulars	Rs.
Royalty	5,00,000
After ignoring income in excess of 15% of value of books sold (a)	3,75,000
After ignoring income not repatriated by 30.9.2023 (b)	2,75,000
Eligible income (lower of a or b)	2,75,000
Deduction u/s 80QQB = Lower of eligible income or Rs. 3,00,000	2,75,000

**Note 6: Deduction u/s 80G**

Particulars	Rs.
<b>Donations eligible for deduction without qualifying limit</b>	
• Donation to Prime Minister's National Relief Fund, paid by cheque (@ 100%)	30,000
• Donation to Prime Minister's Drought Relief Fund, paid by cheque (@ 50%)	5,000
<b>(A)</b>	<b>35,000</b>
<b>Donations eligible for deduction subject to qualifying limit</b>	
Eligible donations:	
• Donation to Government to be utilized for promoting family planning, paid by NEFT	1,00,000
• Donation to a charitable trust approved u/s 80G, paid by cheque	1,25,000
• Donation for renovation of a temple notified u/s 80G, paid in cash (amount > Rs. 2,000 paid in cash is not eligible)	-
	2,25,000
Adjusted total income:	
• Gross total income	34,00,000
• Less: STCG u/s 111A	(3,00,000)
• Less: Deductions under Chapter VIA (except u/s 80G)	(12,95,000)
	18,05,000
Qualifying limit = 10% of Adjusted Total Income	1,80,500
Lower of amount of eligible donations (2,25,000) or qualifying amount (1,80,500)	1,80,500
Deduction allowed:	
• To Government for promoting family planning (@ 100%)	1,00,000
• To charitable trust @ 50% of Rs. 80,500 (1,80,500 qualifying limit – 1,00,000)	40,250
<b>(B)</b>	<b>1,40,250</b>
<b>Total deduction u/s 80G = A + B</b>	<b>1,75,250</b>

# MCQ

## GENERAL PRINCIPLES

**M1.** Deduction under chapter VIA is not allowed from which of the following incomes?

- (a) Income from house property (b) Business income  
(c) Winnings from lottery and gambling (d) Income from salary

**M2.** Deduction under chapter VIA is allowed from which of the following incomes?

- (a) Long term capital gain on sale of house (b) Short term capital gain on sale of units of equity oriented fund (STT chargeable on sale)  
(c) Short term capital gain on sale of jewellery (d) Unexplained investments

**M3.** Deduction under Chapter VIA, not allowed in an AY, can be carried forward to the next AY.

- (a) True (b) False

**M4.** Chintan has the following particulars for AY 2023-24: Business income Rs. 50,000; short term capital gain from sale of vacant plot of land Rs. 1,20,000; winning from card games Rs. 40,000; long term capital gain on sale of house Rs. 60,000; purchase of NSC (VIII issue) certificates Rs. 1,00,000. Compute his total income.

- (a) Nil (b) 2,00,000  
(c) 1,00,000 (d) 1,70,000

**M5.** Chetan, aged 40 years, has the following particulars for AY 2023-24: Income from salary (computed) Rs. 1,00,000; long term capital gain on sale of personal car Rs. 50,000; short term capital gain on sale of equity shares (STT paid) Rs. 2,00,000; interest on bank fixed deposit in the name of spouse made out of money gifted by Chetan Rs. 30,000; deposit in PPF account Rs. 1,50,000. Compute his total income.

- (a) 1,80,000 (b) 2,00,000  
(c) 2,30,000 (d) 2,80,000

#### DEDUCTION FOR INVESTMENTS (80C, 80CCC, 80CCD)

**M6.** In which of the following cases is life insurance premium deductible u/s 80C to the extent of 10% of sum assured?

- (a) Policy issued for self on 1.1.2012 (b) Policy issued for spouse on 1.4.2013  
(c) Policy issued for married child (suffering from disease specified u/s 80DDB) on 1.4.2016 (d) Policy issued for father on 1.4.2018

**M7.** Which of the following payments made by Suresh for his spouse and child are not deductible u/s 80C?

- (a) Non-commutable deferred annuity contract (b) NSC (IX issue)  
(c) PPF account (d) Notified ULIP of LIC Mutual Fund

**M8.** During the PY 2022-23, Yaksh made the following payments of life insurance premium: Rs. 15,000 for self (policy issued on 31.3.2012 with sum assured Rs. 1,00,000); Rs. 20,000 for spouse (not dependent; policy issued on 1.4.2012 with sum assured Rs. 1,50,000); Rs. 25,000 for child (20 years age; suffering from a disease specified u/s 80DDB; policy issued on 1.6.2016 with sum assured Rs. 2,00,000); Rs. 20,000 for married daughter (policy issued on 1.6.2019 for sum assured Rs. 1,50,000); Rs. 18,000 for father (dependent; policy issued on 1.4.2011 with sum assured Rs. 3,00,000). Compute the deduction allowable u/s 80C.

- (a) 70,000 (b) 50,000  
(c) 73,000 (d) 40,000

**M9.** Sushmita, wife of Raju, received Rs. 10,00,000 as payment from insurance company consequent to death of Raju. Raju had taken the life insurance policy for sum assured of Rs. 10,00,000 on 1.6.2019 for which he paid premium of Rs. 1,10,000 every year. Payment received would be:

- (a) 50% taxable (b) Fully exempt  
(c) 1 lakh taxable (d) Fully taxable

**M10.** During the PY 2022-23, Drishti contributed Rs. 60,000 to recognized provident fund (her employer made a matching contribution), Rs. 20,000 each to the PPF account of self, married son and mother, Rs. 10,000 to the Sukanya Samriddhi Account for her girl child and Rs. 30,000 to unrecognized superannuation fund. Compute the deduction u/s 80C.

- (a) 1,50,000 (b) 1,40,000  
(c) 1,10,000 (d) 1,30,000

**M11.** Srishti's income for PY 2022-23 comprised income from house property of Rs. 2,00,000. She invested Rs. 50,000 in NSC Certificates (IX issue) on 31.3.2023. Accrued interest for the year on certificates held by her amounted to Rs. 20,000. Her total income would be:

- (a) 1,30,000 (b) 1,50,000  
(c) 2,00,000 (d) 1,80,000

**M12.** During the PY 2022-23, Reena incurred the following expenses on education: School fee of Rs. 1 lakh paid for daughter (25% donation, 75% tuition fee), college fee paid for major son for pursuing MBA in Canada Rs. 2 lakh (75% tuition fee; 25% development fee), fee for part time course in software development for major son Rs. 50,000. Deduction u/s 80C would be:

- (a) 1,50,000 (b) 1,25,000  
(c) 75,000 (d) 1,00,000

**M13.** Repayment of housing loan is deductible if the loan has been availed from a bank for which of the following purposes:

- (a) Purchase of commercial building (b) Renewal of residential house  
(c) Construction of residential house (d) Repair of godown

**M14.** Rajat took a bank loan on 1.4.2022 to purchase a residential house for self-residence on 10.4.2022. He paid stamp duty and registration fee of Rs. 20,000 on 15.4.2022. On 15.3.2023, he paid Rs. 1 lakh towards repayment of principal and Rs. 2.5 lakh towards interest on loan. On 15.12.2022 he spent Rs. 50,000 on repair of house. Compute income from house property and deduction u/s 80C for AY 2023-24.

- (a) IHP (-) 2,00,000; 80C 1,70,000 (b) IHP (-) 2,50,000; 80C 1,20,000  
 (c) IHP (-) 2,50,000; 80C 1,00,000 (d) IHP (-) 2,00,000; 80C 1,20,000

**M15.** Ramya made the following investments during the PY 2022-23: Her contribution to statutory provident fund Rs. 20,000; Rs. 30,000 in National Housing Bank (Tax Saving) Term Deposit, Rs. 50,000 in 3-year fixed deposit of SBI; Rs. 30,000 in 5-year tax saver fixed deposit of HDFC Bank; Rs. 10,000 in notified bonds of NABARD; Rs. 30,000 in Post Office Savings Bank Account; Rs. 20,000 in Post Office Time Deposit for 5 years; Rs. 10,000 in Senior Citizens Savings Scheme; Rs. 40,000 life insurance premium for self (premium due on 25.3.2023; paid on 1.4.2023; policy issued on 1.4.2021 for sum assured of Rs. 5 lakh). Compute deduction u/s 80C.

- (a) 1,30,000 (b) 1,20,000  
 (c) 1,50,000 (d) 1,40,000

**M16.** The private sector employer of Raman, who draws basic salary of Rs. 1,50,000 per month, contributed Rs. 30,000 per month to his NPS account during the PY 2022-23. How much deduction can Raman claim on this account?

- (a) 3,60,000 (b) 2,52,000  
 (c) 1,80,000 (d) 1,50,000

**M17.** Rajesh is a businessman having gross total income of Rs. 6,00,000. During the PY 2022-23, he deposited Rs. 2,00,000 in his NPS account. Compute his total income.

- (a) 4,80,000 (b) 4,50,000  
 (c) 5,50,000 (d) 4,30,000

**M18.** During the PY 2022-23, Rashi, earning salary of Rs. 1,00,000 per month from JKL Pvt Ltd. (Rs. 60,000 basic salary and balance as dearness allowance of which 50% formed part of the terms of employment), contributed Rs. 1,20,000 to her NPS account with her employer making an equal contribution. She also deposited 1,00,000 in her PPF account. Compute the deduction available under Chapter VIA.

- (a) 2,96,000 (b) 3,16,000  
 (c) 1,50,000 (d) 2,00,000

**M19.** During the PY 2022-23, Jagan deposited Rs. 2,50,000 in his NPS account (his employer, MMT Ltd, making a matching contribution). He earned basic salary of Rs. 50,000 per month, dearness allowance of Rs. 30,000 per month (60% forming part of terms of employment) and fixed medical allowance of Rs. 10,000 per month. Compute his total income for AY 2023-24.

- (a) 8,16,800 (b) 7,88,000  
 (c) 10,66,800 (d) 8,38,000

**M20.** Saina is a Central Government employee earning basic salary of Rs. 1,00,000 per month and dearness allowance @ 80% of basic salary (forming part of retirement benefits). During the PY 2022-23, she contributed 15% of her total salary to the NPS account with her employer making a matching contribution. Compute the deduction u/s 80CCD.

- (a) 5,68,400 (b) 5,02,400  
 (c) 4,16,000 (d) 4,82,000

**M21.** Which of the following amounts is taxable in respect of payments received from the NPS account?

- (a) Amount received by the nominee on the death of account holder (b) 60% of amount received on closure of account or on opting out  
 (c) Pension from annuity plan purchased out of amount received on closure of account or on opting out (d) Amount received on closure or opting out which is used to buy an annuity plan in the same PY

**M22.** Eligible deduction for which of the following is not limited to Rs. 1,50,000?

- (a) Investments under section 80C (b) Employer's contribution to NPS account of employee  
 (c) Contribution to pension fund of an insurer (d) All of the above

**M23.** Shiny, drawing basic salary of Rs. 1,00,000 per month, contributed Rs. 1,00,000 each to approved superannuation fund, pension fund of LIC and NPS. Her employer, Zed Ltd., made a matching contribution to NPS. Compute the deduction allowable under Chapter VIA?

- (a) 1,50,000 (b) 4,50,000  
 (c) 3,00,000 (d) 2,50,000

**M24.** Gopal, a businessman having gross total income of Rs. 5,00,000, contributed Rs. 1,00,000 each to notified bonds of NABARD, approved pension fund of an insurer and his NPS account. Compute the deduction allowable under Chapter VIA?

- (a) 1,50,000 (b) 2,00,000  
 (c) 3,00,000 (d) 2,50,000

**DEDUCTION FOR HEALTH & WELLNESS (80D, 80DD, 80DDB, 80U)**

**M25.** Which of these deductions is available to a non-resident?

- (a) 80D (b) 80DD  
(c) 80DDB (d) 80U

**M26.** The quantum of deduction under which of these provisions is dependent on the amount of expenditure incurred?

- (a) 80D and 80U (b) 80DD and 80U  
(c) 80D and 80DDB (d) 80DD and 80DDB

**M27.** Mr. A, a Central Government employee, made the following payments during the year (all by cheque): Contribution to Central Government Health Scheme Rs. 10,000; mediclaim premium for married son (dependent) Rs. 5,000; mediclaim premium of younger brother (dependent) Rs. 10,000; preventive health check up for spouse (not dependent) Rs. 7,000. Compute deduction u/s 80D.

- (a) 22,000 (b) 15,000  
(c) 20,000 (d) 25,000

**M28.** Mr. B, age 35 years, made the following payments during the year (all by cheque): Health insurance premium for working wife Rs. 23,000, preventive health check up for minor daughter (dependent) Rs. 4,000; mediclaim premium for father (non-resident of age 62 years) Rs. 30,000; mediclaim premium for mother (resident of age 60 years) 18,000; medical expenditure on mother Rs. 50,000. Compute deduction u/s 80D.

- (a) 70,000 (b) 73,000  
(c) 75,000 (d) 68,000

**M29.** Mr. C, age 33 years, made the following payments during the year: Mediclaim premium of minor son (dependent) Rs. 20,000 paid by cash; preventive health check for self Rs. 10,000 paid by cash; mediclaim premium for father (resident of age 61 years) Rs. 40,000 paid by cheque; mediclaim premium for mother (resident of age 58 years) Rs. 20,000 paid by cheque. Compute deduction u/s 80D.

- (a) 65,000 (b) 60,000  
(c) 55,000 (d) 30,000

**M30.** Mr. D, resident of age 40 years, made the following payments during the year (all by cheque): Mediclaim premium for self 35,000 and spouse Rs. 10,000. Mediclaim premium for father Rs. 40,000 (non-resident of 75 years) and mother Rs. 40,000 (non-resident of 72 years). Compute deduction u/s 80D.

- (a) 75,000 (b) 50,000  
(c) 65,000 (d) 70,000

**M30a.** Kapil, a resident in India and a salaried employee of age 61 years, took a life insurance policy in the name of his major daughter on 15.6.2015 for a sum assured of Rs. 18,00,000 on which he paid premium of Rs. 1,90,000 during the PY 2022-23. He also took a health insurance policy on 10.12.2022 for himself for a period of 5 years in respect of which he paid a one time premium of Rs. 1,80,000 on this date. Compute the amount of deduction available to Kapil from his gross total income for the PY 2022-23.

- (a) 3,30,000 (b) 1,75,000  
(c) 3,60,000 (d) 1,80,000

**M31.** Shubham, resident aged 45 years, spent Rs. 10,000 on medical treatment of his elder brother, being a person with severe disability certified u/s 80U and mainly dependent on him. He also deposited Rs. 15,000 in an approved scheme of LIC for maintenance of his brother. His brother does not have any source of income. Shubham would be entitled to a deduction u/s 80DD of:

- (a) 10,000 (b) 25,000  
(c) 75,000 (d) 1,25,000

**M32.** Raghav, resident aged 40 years, incurred expenditure of Rs. 10,000 each for medical treatment of his younger brother and elder sister, both wholly dependent on him. Younger brother was certified with disability u/s 80U to the extent of 60% and elder sister was certified with disability u/s 80U to the extent of 90%. Brother earned taxable income and claimed deduction u/s 80U. Deduction available to Raghav from his gross total income would be:

- (a) 1,25,000 (b) 75,000  
(c) 2,00,000 (d) 20,000

**M33.** Chetan, resident aged 55 years, incurred the following expenditure during the year: Health insurance premium for spouse (not dependent) Rs. 30,000; preventive health checkup of his father (resident of age 80 years) Rs. 10,000; rehabilitation expenses for dependent father-in-law (suffering from severe disability certified u/s 80U) Rs. 1,00,000; medical treatment of dependent elder brother (non resident of age 61 years) for a life threatening disease specified u/s 80DDB Rs. 1,70,000 (Rs. 25,000 reimbursed by insurer). Compute the amount of deduction available to Chetan from his gross total income.



- (a) 50,000 (b) 1,65,000  
(c) 70,000 (d) 45,000

### DEDUCTION FOR INTEREST ON LOAN (80E, 80EE, 80EEA, 80EEB)

**M34.** In which of the following situations is deduction not allowed for interest paid on loan taken for education?

- (a) Loan is taken from approved charitable institution (b) Higher education is for dependent brother  
(c) Loan is taken by a non resident individual (d) Higher education is pursued outside India

**M35.** Rekha took a loan of Rs. 10,00,000 from a bank for meeting expenditure on education of her husband pursuing MBA course. The loan was disbursed on 1.9.2012. She paid the first instalment of principal repayment along with interest on 1.6.2015. During PY 2022-23, she paid Rs. 70,000 towards principal and Rs. 50,000 towards interest. Her gross total income was Rs. 3,00,000. Her total income would be:

- (a) 2,50,000 (b) 3,00,000  
(c) 1,80,000 (d) 2,30,000

**M36.** Riya took an education loan from a notified financial institution for her spouse (not dependent on her) pursuing M. Tech course from USA. Loan was sanctioned on 1.3.2015 and disbursed on 15.4.2015. The course began on 1.9.2015 and Riya started paying interest from 1.3.2016. During the PY 2022-23, she paid interest of Rs. 3 lakh and repaid principal of Rs. 2 lakh. Her gross total income is Rs. 6 lakh. Compute her total income.

- (a) 6 lakh (b) Nil  
(c) 3 lakh (d) 1 lakh

**M37.** Which of the following situation will not disentitle the assessee to claim deduction u/s 80EEA?

- (a) Loan is taken for renewal of residential house (b) Loan is sanctioned on 31.3.2019 and disbursed on 1.4.2019  
(c) SDV is 46 lakh and FMV is 45 lakh (d) Assessee does not own any residential house on the date of sanction of loan

**M38.** Rishabh acquired his first house in Jaipur for own residence. The house was purchased for 46 lakh (SDV Rs. 45 lakh). Loan from a bank to acquire the house was sanctioned on 31.3.2019 and disbursed on 10.4.2019. Interest payable as well as paid during the PY 2022-23 amounted to Rs. 3.75 lakh. Determine the deductions that will be allowed to Rishabh?

- (a) Rs. 2 lakh u/s 24(b) (b) Rs. 2 lakh u/s 24(b); Rs. 1.75 lakh u/s 80EEA  
(c) Rs. 2 lakh u/s 24(b); Rs. 1.5 lakh u/s 80EEA (d) Rs. 1.5 lakh u/s 24(b); Rs. 1.5 lakh u/s 80EEA

**M39.** Jacky purchased his first house for Rs. 50 lakh (FMV was Rs. 51 lakh and SDV was Rs. 44 lakh), using a loan of Rs. 48 lakh taken from a housing finance company. Loan was sanctioned on 1.10.2021. The house was self occupied. Jacky paid Rs. 4 lakh of interest on loan which was due during the PY 2022-23. His income from salary (computed) was Rs. 3,50,000. Compute his total income.

- (a) 1,50,000 (b) 2,00,000  
(c) 1,00,000 (d) Nil

**M39a.** Raju purchased his first residential house in Chennai on 1.4.2022. He applied for a home loan from IDFC Bank on 15.3.2022 which got sanctioned on 25.3.2022. Stamp duty value of the house was Rs. 45 lakh. Interest on the loan amounted to Rs. 3,90,000 for the FY 2022-23 out of which Raju could pay only 3,10,000. Further, during the FY 2022-23, he repaid principal amounting to Rs. 1,00,000. Compute the total interest deduction that Raju can claim for the AY 2023-24.

- (a) Nil (b) 3,10,000  
(c) 3,50,000 (d) 4,50,000

**M40.** Which of the following will disentitle the assessee to claim deduction of interest on loan for purchase of electric vehicle?

- (a) Loan is applied for on 15.3.2019 and sanctioned on 1.4.2019 (b) Loan is granted by an approved charitable institution  
(c) Assessee is a non resident individual (d) Interest paid exceeds Rs. 1,50,000

**M41.** Roshan, a resident but not ordinarily resident, took a loan from Dena Bank of Rs. 20 lakh to purchase an electric vehicle costing Rs. 25 lakh, for personal use of his family. He applied for the loan on 1.3.2019 and it was sanctioned and disbursed on 5.4.2019. Interest due for PY 2022-23 was Rs. 1,60,000. His gross total income comprised income from house property of Rs. 1,25,000 and winning from lottery of Rs. 50,000. Compute his total income.

- (a) 1,75,000 (b) 25,000  
(c) 50,000 (d) 15,000

**DEDUCTION FOR DONATIONS (80G, 80GGA, 80GGB, 80GGGC)**

**M42.** Donation to which of the following is not entitled to a 100% deduction without any qualifying limit?

- |                          |                             |
|--------------------------|-----------------------------|
| (a) National Sports Fund | (b) PM CARES Fund           |
| (c) Swachh Bharat Kosh   | (d) Rajiv Gandhi Foundation |

**M43.** Donation to which of the following is entitled to 50% deduction without any qualifying limit?

- |                                  |                           |
|----------------------------------|---------------------------|
| (a) Indira Gandhi Memorial Trust | (b) National Defence Fund |
| (c) PM National Relief Fund      | (d) CM's Relief Fund      |

**M44.** Donation to which of the following is entitled to 100% deduction subject to a qualifying limit?

- |  |   |
|--|---|
| (a) Charitable trust approved u/s 80G                  | (b) Renovation of a notified place of worship |
| (c) Approved institution for promoting family planning | (d) National Sports Fund                      |

**M45.** Which of the following is one of the items that is reduced from gross total income in order to compute the qualifying limit u/s 80G for certain donations?

- |                                 |   |
|---------------------------------|---|
| (a) Any short term capital gain | (b) Short term capital gain u/s 111A and long term capital gain |
| (c) Loss from house property    | (d) Any capital gain  |

**M46.** Rohit donated Rs. 50,000 to National Cultural Fund and Rs. 60,000 to Jawaharlal Nehru Memorial Fund by cheque. He also donated Rs. 20,000 to a public charitable trust in cash. Deduction u/s 80G would be:

- |              |              |
|--------------|--------------|
| (a) 1,30,000 | (b) 1,10,000 |
| (c) 80,000   | (d) 90,000   |

**M47.** Kavya made the following donations during the PY 2022-23: Lieutenant Governor's Relief Fund Rs. 30,000 (paid by cheque); Indira Gandhi Memorial Trust Rs. 50,000 (paid by cheque); approved association for promoting family planning Rs. 30,000 (paid by cheque); Indian Olympic Association Rs. 60,000 (paid by cheque); charitable institution approved u/s 80G Rs. 40,000 (paid by cheque); 1,000 kg rice to a notified mosque worth Rs. 40,000. Her gross total income comprises income from house property Rs. 6,00,000 and long term capital gain Rs. 1,00,000. She deposited Rs. 1,00,000 in her PPF account. Compute her total income.

- |              |              |
|--------------|--------------|
| (a) 4,45,000 | (b) 4,05,000 |
| (c) 4,95,000 | (d) 5,05,000 |

**M48.** During the PY 2022-23, Ramit donated Rs. 50,000 to a research association (approved u/s 35) for carrying out scientific research, Rs. 40,000 to a college (not approved u/s 35) for statistical research, Rs. 30,000 to Rural Development Fund (notified u/s 35CCA), Rs. 60,000 to National Urban Poverty Eradication Fund (notified u/s 35CCA) and Rs. 2,000 to an association for rural development (approved u/s 35CCA). All payments were by cheque, except to scientific research association and rural development association which were in cash. Ramit is a salaried employee and does not carry on any business. Deduction allowable to him in respect of such payments would be:

- |              |              |
|--------------|--------------|
| (a) 92,000   | (b) 90,000   |
| (c) 1,30,000 | (d) 1,40,000 |

**M49.** During the PY 2022-23, Sarthak, a businessman, incurred expenditure of Rs. 25,000 by cheque on placing an advertisement in the pamphlet published by Jagran Sena, a political party. What will the tax treatment?

- |   |  |
|---|--|
| (a) Disallowed in computing PGBP; deduction from GTI    | (b) Allowed in computing PGBP; no deduction from GTI |
| (c) Disallowed in computing PGBP; no deduction from GTI | (d) Allowed in computing PGBP; deduction from GTI    |

**M50.** During the PY 2022-23, Raunaq contributed the following amounts to political parties: Rs. 1,500 by cash, Rs. 8,000 by cheque, Rs. 5,000 by cash and Rs. 6,000 by cheque for advertisement in brochure of the party. Compute the deduction from gross total income available in respect of such payments.

- |            |            |
|------------|------------|
| (a) 9,500  | (b) 14,000 |
| (c) 15,500 | (d) 8,000  |

**M51.** During the PY 2022-23, JCB Ltd., an Indian company, contributed Rs. 10,000 in cash to BJP, a political party, Rs. 20,000 by cheque to Congress, a political party, and spent Rs. 30,000 by cheque on advertisement in souvenir of a local political party. Deduction allowable, from gross total income, in respect of such payments would be:

- |            |            |
|------------|------------|
| (a) 50,000 | (b) 20,000 |
| (c) 30,000 | (d) 60,000 |

**DEDUCTION FOR RENT [80GG]**

**M52.** Which of the following situations would not disentitle an assessee to claim deduction u/s 80GG?

- |  |   |
|--|---|
| (a) He receives HRA from employer                                    | (b) He has paid rent for accommodation sub-let to others              |
| (c) His spouse owns a residential property where he resides or works | (d) His brother owns a residential property where he resides or works |

**M53.** Shalu, carrying on a business, paid Rs. 10,000 p.m. as rent for furnished accommodation occupied by her in Mumbai for own residence. Her total income, before allowing deduction u/s 80GG, is Rs. 5,00,000. She fulfills the other conditions laid down in section 80GG. Deduction allowable u/s 80GG would be:

- |              |              |
|--------------|--------------|
| (a) 60,000   | (b) 70,000   |
| (c) 1,25,000 | (d) 1,20,000 |

**M54.** Sheena is self employed and she has to stay in Rajkot to perform her work. Her spouse owns a flat in Rajkot which is let out to others. Hence, Sheena pays rent of Rs. 20,000 p.m. to stay in another flat. Can she claim deduction from her gross total income for rent paid?

- |         |        |
|---------|--------|
| (a) Yes | (b) No |
|---------|--------|

**M55.** Shruti, a salaried employee, pays rent of Rs. 10,000 per month to stay in a house in Delhi. Her employer does not pay HRA. She or her family members do not own any house. Her income from salary is computed at Rs. 11,00,000. She has earned long term capital gain of Rs. 1 lakh from sale of gold and has deposited Rs. 1 lakh in the LIC pension fund. Compute her total income.

- |               |               |
|---------------|---------------|
| (a) 9,80,000  | (b) 12,80,000 |
| (c) 10,80,000 | (d) 11,80,000 |

**DEDUCTIONS FOR INTEREST INCOME [80TTA, 80TTB]**

**M56.** Deduction in respect of interest on deposits with a bank is allowed up to Rs. 50,000 to:

- |   |   |
|---|---|
| (a) HUF   | (b) Non-resident individual of age 60 years or more |
| (c) Resident individual less than 60 years of age | (d) Resident individual of age 60 years or more     |

**M57.** Soumil, aged 50 years, earned Rs. 20,000 as interest on Post Office Savings Bank Account (individual). He has no other interest income. Amount of interest included in his total income would be:

- |            |           |
|------------|-----------|
| (a) 10,000 | (b) Nil   |
| (c) 16,500 | (d) 6,500 |

**M58.** During the PY 2022-23, Raja, a non-resident aged 61 years, deposited Rs. 1,00,000 in 5-year Post Office Time Deposit on 31.3.2023. He also earned the following interest incomes during the year: Interest on Post Office Saving Account (individual) Rs. 7,000; interest on savings bank account with SBI Rs. 6,000 and interest on fixed deposits with Dhanlakshmi cooperative bank Rs. 20,000. His gross total income is Rs. 3,00,000. Compute his total income.

- |              |              |
|--------------|--------------|
| (a) 2,90,000 | (b) 1,90,500 |
| (c) 2,90,500 | (d) 1,90,000 |

**M59.** During the PY 2022-23, Virat, a resident aged 62 years, earned the following incomes: Income from house property Rs. 3,00,000; interest on fixed deposit with ICICI bank Rs. 20,000; interest on savings bank account with co-operative bank Rs. 10,000; interest on PPF Rs. 50,000; interest on recurring deposit account with Punjab National Bank Rs. 25,000 and interest on savings account with Post Office (individual account) Rs. 13,500. Compute his total income.

- |              |              |
|--------------|--------------|
| (a) 3,15,000 | (b) 3,55,000 |
| (c) 3,18,500 | (d) 3,22,500 |

**M59a.** During the PY 2022-23, Mr. Z, a resident aged 65 years, has earned interest of Rs. 15,000 from savings bank account in Bank of India, interest of Rs. 10,000 from Morcha Co-operative Bank and Rs. 30,000 from JK Finance, an NBFC. What is the deduction available to him in computing gross total income for AY 2023-24?

- |            |            |
|------------|------------|
| (a) 10,000 | (b) 25,000 |
| (c) 50,000 | (d) 55,000 |

**DEDUCTIONS FOR CERTAIN OTHER INCOMES [80JJAA, 80QQB, 80RRB]**

**M60.** Which of the following is not a condition for claiming deduction u/s 80JJAA, 80QQB or 80RRB?

- |  |  |
|--|--|
| (a) Return should be filed on or before the due date u/s 139(1)          | (b) Deduction should be claimed in the return                  |
| (c) Deduction should not exceed the income on which deduction is claimed | (d) Deduction should be given on gross income that is received |

**M61.** Which of the following is not a condition for claiming deduction u/s 80JJAA?

- (a) GTI should include income from business (b) Assessee should not be liable to tax audit  
(c) Business should not be formed by splitting up or reconstruction of an existing business (d) Accountant's report should be furnished before the due date to furnish tax audit report

**M62.** Janak started a new transport business on 1.4.2022. Turnover of business for PY 2022-23 was Rs. 1.5 crore and 20% transactions of receipts and payments, each, were in cash. He employed 5 people on 1.5.2022 out of which one person drew salary of Rs. 30,000 p.m. (all others were paid emoluments of Rs. 25,000 p.m.), one person resigned on 1.9.2022, one person did not participate in the recognized provident fund and one person took emoluments in cash. Determine the deduction available u/s 80JJAA for AY 2023-24.

- (a) Nil (b) 2,47,500  
(c) 1,65,000 (d) 3,30,000

**M63.** Josh carried on business of footwear manufacturing having 20 employees as on 31.3.2022. The business was liable to tax audit u/s 44AB. During the PY 2022-23, two existing employees resigned on 1.5.2022. He employed 5 people on 1.6.2022 on salary of Rs. 20,000 per month. A new employee was later appointed on 1.10.2022 on salary of Rs. 26,000 per month. Determine the deduction available u/s 80JJAA for AY 2023-24

- (a) 2,26,800 (b) 1,80,000  
(c) 3,33,333 (d) Nil

**M64.** Deduction u/s 80QQB in respect of royalty earned on sale of books cannot exceed which of the following:

- (a) Rs. 3 lakh (b) Gross income up to 15% of value of books sold  
(c) Income, earned outside India, that is repatriated to India within 6 months from the end of PY (or further time allowed by RBI) (d) All the above

**M65.** Sarthak, a resident individual, is a professional author of artistic books. During the PY 2022-23, he earned royalty @ 20% of books sold of value Rs. 20 lakh by a foreign publisher. He could repatriate 80% of royalty to India by 30.9.2023. Compute the deduction u/s 80QQB.

- (a) 3,00,000 (b) 3,50,000  
(c) 2,50,000 (d) 2,00,000

**M66.** Rukmi, a resident of age 35 years, wrote a book on ancient art and received a lump sum payment of Rs. 4,00,000 in lieu of all rights in the book. Compute the deduction u/s 80QQB.

- (a) 3,00,000 (b) 3,50,000  
(c) 4,00,000 (d) Nil

**M67.** Ramkumar, a resident of age 55 years and a scientist, received royalty of Rs. 1.5 lakh each from a foreign company, in respect of three patents registered in his name. He could repatriate 60% of royalty by 30.9.2023. Compute deduction u/s 80RRB for the PY 2022-23.

- (a) 3,00,000 (b) 2,70,000  
(c) 4,50,000 (d) Nil

#### SUMMARY

**M68.** Which section allows for a flat amount of deduction?

- (a) 80C (b) 80DD  
(c) 80RRB (d) 80GG

**M69.** Which of these deductions is not available to a HUF?

- (a) 80C (b) 80CCD  
(c) 80DD (d) 80G

**M70.** Which of these deductions is not available to a non resident?

- (a) 80C (b) 80E  
(c) 80U (d) 80TTA

**M71.** Which of these deductions is only available to a senior citizen?

- (a) 80DDB (b) 80EEB  
(c) 80QQB (d) 80TTB

**M72.** Which of these deductions is not available up to a limit of Rs. 1,50,000?

- (a) 80EEB (b) 80CCC  
(c) 80DDB (d) 80EEA

## Answer Key for MCQs

M1 C; M2 C; M3 B; M4 D; M5 B; M6 B; M7 B; M8 A; M9 B; M10 C; M11 B; M12 C; M13 C; M14 D; M15 B; M16 C; M17 D; M18 A; M19 C; M20 B; M21 C; M22 B; M23 C; M24 B; M25 A; M26 C; M27 C; M28 D; M29 C; M30 B; M30a D; M31 D; M32 A; M33 D; M34 B; M35 A; M36 C; M37 D; M38 A; M39 D; M39a C; M40 B; M41 C; M42 D; M43 A; M44 C; M45 B; M46 C; M47 D; M48 A; M49 C; M50 D; M51 A; M52 D; M53 A; M54 B; M55 C; M56 D; M57 D; M58 B; M59 A; M59a B; M60 D; M61 B; M62 C; M63 B; M64 D; M65 A; M66 A; M67 B; M68 B; M69 B; M70 C; M71 D; M72 C

## Hints to MCQ answers

**M2.** Deduction u/c VIA is not allowed from LTCG or STCG u/s 111A or unexplained investment u/s 69.

**M4.** Deduction u/c VIA is not allowed from winnings and LTCG. Total income = GTI of 2,70,000 – Deductions u/s 80C of 1,00,000 (allowed from business income and STCG from sale of land) = 1,70,000

**M5.** GTI = Salary of 1,00,000 + LTCG Nil as personal car is not a capital asset + STCG u/s 111A of 2,00,000 + Interest clubbed u/s 64(1)(iv) of 30,000 = 3,30,000. Total income = GTI of 3,30,000 – Deduction u/s 80C of 1,30,000 = 2,00,000. Deduction u/c VIA is not allowed from LTCG (it is anyways not taxable) and STCG u/s 111A.

**M6.** A. Premium is deductible up to 20% of sum assured. B. Premium is deductible up to 10% of sum assured. C. Premium is deductible up to 15% of sum assured. D. Not eligible for father.

**M8.** Deduction u/s 80C = For self 15,000 (up to 20% of sum assured) + For spouse 15,000 (up to 10% of sum assured) + For child 25,000 (up to 15% of sum assured) + For daughter 15,000 (up to 10% of sum assured) + For father NIL as not eligible = 70,000.

**M9.** Amount received on death is exempt u/s 10(10D) even though the premium is > 10% of sum assured.

**M10.** Deduction u/s 80C = 60,000 for own contribution to RPF + 40,000 for PPF deposit for self and son (mother is not eligible) + 10,000 for deposit in Sukanya Samridhi A/c + Nil for USF (not eligible) = 1,10,000

**M11.** Total income = 2,20,000 (income from house property + NSC interest) – 70,000 deduction u/s 80C (investment in NSC IX issue and accrued interest which is deemed as reinvested) = 1,50,000

**M12.** Deduction u/s 80C = Tuition fee of 75,000 (donation is not eligible) + College fee NIL as college is outside India + Part time course NIL as education is not full time = 75,000.

**M13.** Only purchase or construction of a residential house property is covered for deduction.

**M14.** Income under the head IHP = NAV of NIL – Interest u/s 24(b) up to 2,00,000 – Loss of 2,00,000. // Deduction u/s 80C = Stamp duty and registration fees of 20,000 + Repayment of principal of 1,00,000 + Nil for repair = 1,20,000.

**M15.** Deduction u/s 80C = Contribution to SPF of 20,000 + NHB Tax Saving Term Deposit of 30,000 + 3Y fixed deposit NIL as term is < 5Y + 5Y fixed deposit of 30,000 + NABARD bonds of 10,000 + Post Office Savings Bank NIL + 5Y POTD of 20,000 + SCSS of 10,000 + Life insurance premium NIL as not paid during the PY = 1,20,000

**M16.** Deduction u/s 80CCD(2) = Contribution of 3,60,000 up to 1,80,000 (10% of salary of 18 lakh) = 1,80,000. Limit u/s 80CCE is not applicable.

**M17.** Deduction u/s 80CCD = 50,000 u/s 80CCD(1B) + 1,20,000 u/s 80CCD(1) (20% of GTI of 6,00,000) = 1,70,000. Total income = GTI of 6,00,000 – Deduction u/s 80CCD of 1,70,000 = 4,30,000.

**M18.** 80CCD salary = Basic of 7,20,000 + DA forming part of pay of 2,40,000 = 9,60,000. // Deduction u/s 80CCD(1B) for own contribution = 50,000. // Deduction u/s 80CCD(1) for own contribution = 70,000 (1,20,000 – 50,000 considered u/s 80CCD(1B)) allowed up to 96,000 (10% of salary) = 70,000. // Deduction u/s 80CCD(2) for employer's contribution = 1,20,000 allowed up to 96,000 (10% of salary) = 96,000. // Deduction u/s 80C = 1,00,000. // Deduction u/s 80C of 1,00,000 + 80CCD(1) of 70,000 = 1,70,000 but allowed up to 1,50,000 = 1,50,000. // Deduction u/c VIA = Deduction u/s 80CCD(1B) of 50,000 + Deduction u/s 80CCD(2) of 96,000 + Deduction u/s 80CCE of 1,50,000 = 2,96,000.

**M19.** GTI = Basic salary of 6,00,000 + DA of 3,60,000 + Medical allowance of 1,20,000 + NPS contribution of employer of 2,50,000 – Standard Deduction of 50,000 = 12,80,000. // 80CCD salary = Basic salary of 6,00,000 + DA as per terms of employment of 2,16,000 = 8,16,000. // Deduction u/s 80CCD(1B) for own contribution = 50,000. // Deduction u/s 80CCD(1) for own contribution = 2,00,000 (2,50,000 – 50,000 considered u/s 80CCD(1B)) allowed up to 81,600 (10% of 80CCD salary) = 81,600. // Deduction u/s 80CCD(2) for employer's contribution = 2,50,000 allowed up to 81,600 (10% of 80CCD salary) = 81,600. // Total deduction u/s 80CCD = 2,13,200. // Total income = GTI of 12,80,000 – Deduction u/s 80CCD of 2,13,200 = 10,66,800.

**M20.** 80CCD salary = Basic salary of 12,00,000 + DA of 9,60,000 = 21,60,000. // Contribution to NPS = 15% of total salary = 3,24,000. // Deduction u/s 80CCD(1B) for own contribution = 50,000. // Deduction u/s 80CCD(1) for own contribution = 2,74,000 (3,24,000 – 50,000 considered u/s 80CCD(1B)) allowed up to 2,16,000 (10% of 80CCD salary) = 2,16,000 but allowed up to the 80CCE limit of 1,50,000 = 1,50,000. // Deduction u/s 80CCD(2) = 3,24,000 allowed up to 3,02,400 (14% of 80CCD salary) = 3,02,400. // Total deduction u/s 80CCD = 50,000 + 1,50,000 + 3,02,400 = 5,02,400.

**M22.** Limit of 1,50,000 u/s 80CCE does not apply to deduction u/s 80CCD(2) on account of employer's contribution to NPS account.

- M23.** 80CCD salary = 12,00,000. // Deduction u/s 80CCD(1B) for own contribution = 50,000. // Deduction u/s 80CCD(1) for own contribution = 50,000 (1,00,000 – 50,000 considered u/s 80CCD(1B)) allowed up to 1,20,000 (10% of 80CCD salary) = 50,000. // Deduction u/s 80CCD(2) for employer's contribution = 1,00,000 allowed up to 1,20,000 (10% of 80CCD salary) = 1,00,000. // Deduction u/s 80C and 80CCC = 2,00,000. // Deduction u/s 80C, 80CCC and 80CCD(1) = 2,50,000 but allowed up to 1,50,000 = 1,50,000. // Deduction u/c VIA = Deduction u/s 80CCE of 1,50,000 + Deduction u/s 80CCD(1B) of 50,000 + Deduction u/s 80CCD(2) of 1,00,000 = 3,00,000.
- M24.** Deduction u/s 80CCD(1B) = 50,000. // Deduction u/s 80CCD(1) = 50,000 (1,00,000 – 50,000 considered u/s 80CCD(1B)) allowed up to 1,00,000 (20% of GTI) = 50,000. // Deduction u/s 80C and 80CCC = 2,00,000. // Deduction u/s 80C, 80CCC and 80CCD(1) = 2,50,000 but allowed up to 1,50,000 = 1,50,000. // Deduction u/c VIA = Deduction u/s 80CCE of 1,50,000 + Deduction u/s 80CCD(1B) of 50,000 = 2,00,000.
- M26.** Deduction u/s 80D and 80DDDB is based on the amount of expenditure subject to a limit.
- M27.** Deduction u/s 80D = Contribution to CGHS of 10,000 + Mediclaim premium for son of 5,000 + Mediclaim premium for brother NIL + Preventive health checkup for spouse up to 5,000 = 20,000
- M28.** FAMILY: Premium for wife 23,000 + Health checkup for daughter 4,000 = 27,000, allowed up to 25,000. // PARENTS: Premium for father up to 25,000 (not a senior citizen as not a resident) + Premium for mother 18,000 + Medical expenditure on mother NIL (as mediclaim premium has been paid) = 43,000. // Total = 68,000
- M29.** FAMILY: Premium for son NIL as paid in cash + Health checkup for self up to 5,000 = 5,000. // PARENTS: Premium for mother 20,000 + Premium for father (senior citizen) 40,000 = 60,000, allowed up to 50,000. // Total = 55,000.
- M30.** FAMILY: Premium for self 35,000 + Premium for spouse 10,000 = 45,000, allowed up to 25,000. // PARENTS (not senior citizen as not a resident): Premium for father 40,000 + Premium for mother 40,000 = 80,000, allowed up to 25,000. // Total = 50,000.
- M30a.** Deduction u/s 80C for LIP = 1,80,000 (up to 10% of sum assured) but allowed up to 1,50,000 = 1,50,000. // Deduction u/s 80D is to be allowed for the total number of PYs comprised in the period from PY 2022-23 (in which premium is paid) to PY 2027-28 (till which insurance shall be in force), i.e., for 6 years. Deduction u/s 80D for each relevant PY = 1,80,000 / 6 = 30,000 (allowed up to 50,000 as Kapil is a senior citizen). Total deduction = 1,80,000.
- M31.** Flat deduction u/s 80DD of 1,25,000 for severe disability.
- M32.** Deduction is available u/s 80DD in respect of sister (not for brother as he has claimed deduction u/s 80U). Deduction for severe disability is 1,25,000.
- M33.** Deduction u/s 80D = Premium for spouse, allowed up to 25,000 + Health checkup for father, allowed up to 5,000 = 30,000. // Deduction u/s 80DD = NIL as father-in-law is not eligible. // Deduction u/s 80DDDB = 40,000 (1,70,000 up to the limit of 40,000 as brother is not a senior citizen) – 25,000 received as insurance claim = 15,000. // Total = 45,000.
- M35.** Total income = 3,00,000 GTI – 50,000 deduction u/s 80E = 2,50,000. PY 2022-23 is within the 8-year period starting from FY 2015-16 (year in which she starts paying interest).
- M36.** Total income = 6,00,000 GTI – 3,00,000 deduction u/s 80E = 3,00,000. PY 2022-23 is within the 8-year period starting from FY 2015-16 (year in which she starts paying interest).
- M37.** A. Loan should be taken for acquisition. B. Loan should be sanctioned during PY 2019-20 to PY 2021-22. C. SDV should not exceed 45 lakh. D. This is a valid condition.
- M38.** Interest up to the limit of 2 lakh is deductible u/s 24(b) while computing income under the head IHP. Deduction u/s 80EEA is not permissible as loan is sanctioned before PY 2019-20.
- M39.** SDV is not > 45 lakh and loan is sanctioned in the PY 2021-22. // GTI = 3,50,000 income from salary – 2,00,000 loss from house property (on account of deduction of interest u/s 24(b) up to 2,00,000) = 1,50,000. // Total income = 1,50,000 of GTI – 1,50,000 of deduction u/s 80EEA (4,00,000 interest – 2,00,000 allowed u/s 24(b); allowed up to 1,50,000) = Nil
- M39a.** Deduction u/s 24(b) in computing IHP is allowed up to 2,00,000. // Loan is taken to acquire residential house property, loan is sanctioned during the period PY 2019-20 to 2021-22, SDV is not > 45 lakh and Raju does not own any residential house property on date of sanction of loan. Deduction u/s 80EEA is allowed up to 1,50,000. Deduction under both provision is allowed on due basis. Total deduction = 3,50,000. Deduction on account of repayment of principal can be claimed u/s 80C.
- M40.** A. Loan is sanctioned during the period PY 2019-20 to 2022-23. B. Loan is not granted by a bank or NBFC. C. Residential status is not relevant. D. Deduction will be allowed up to 1.5 lakh though interest has been paid exceeding this amount.
- M41.** Deduction u/s 80EEB is allowed up to 1,50,000 as loan taken from a bank is sanctioned during the period PY 2019-20 to 2022-23. // Total income = 1,75,000 of GTI – 1,25,000 deduction u/s 80EEB (allowed to the extent of income under the head IHP as it is not allowable from winning) = 50,000.
- M42.** Donation to Rajiv Gandhi Foundation is entitled to a 50% deduction without any qualifying limit.
- M44.** A and B are entitled to 50% deduction subject to qualifying limit. D is entitled to 100% without qualifying limit.
- M46.** Deduction u/s 80G = NCF 50,000 (100%) + JNMF 30,000 (50%) + Trust NIL (donation > 2,000 is paid by cash) = 80,000.
- M47.** Donations not subject to qualifying limit = LGRF 30,000 (100%) + IGMT 25,000 (50%) = 55,000. // Donations subject to qualifying limit = Approved association for promoting family planning 30,000 + IOA NIL (as only company can claim deduction) + Charitable institution 40,000 + Mosque NIL (as donation is in kind) = 70,000. // Adjusted total income = GTI of 7,00,000 – LTCG of 1,00,000 – Deduction under Chapter VIA (except u/s 80G) of 1,00,000 u/s 80C = 5,00,000. 10% of Adjusted total income = 50,000. // Deduction u/s 80G = Donations not subject to qualifying limit 55,000 + Donations subject to qualifying limit 40,000 [Approved association for promoting family planning 30,000 (100%) + Charitable institution 10,000 (50% of 20,000, i.e., 50,000 qualifying limit – 30,000)] = 95,000. // Total income = 7,00,000 – Deduction u/s 80C 1,00,000 – Deduction u/s 80G 95,000 = 5,05,000.

- M48.** Deduction = To Research Association NIL (as payment > 2,000 is in cash) + To college NIL (as it is not approved) + To RDF 30,000 + To NUPEF 60,000 + To Rural Development association 2,000 (donation in cash is allowed up to 2,000) = 92,000.
- M49.** Disallowed in computing PGBP u/s 37(2B); Deduction not allowed u/s 80GGC as it is not treated as contribution to a political party.
- M50.** Deduction is allowable u/s 80GGC. Contribution of 8,000 by cheque is allowed. Contribution in cash is not allowed. Expenditure on advertisement is not allowed.
- M51.** Deduction u/s 80GGB = To BJP NIL as it is paid in cash + To Congress 20,000 + On advertisement 30,000 = 50,000
- M52.** A. He should not receive HRA from employer. B. He should occupy the accommodation for own residence. C. His spouse should not own residential accommodation at such place. D. The condition of not owning residential accommodation at such place is not applicable to a brother.
- M53.** Deduction u/s 80GG = Lower of (a) 60,000 (5,000 p.m.), (b) 1,20,000 rent paid – 50,000 (10% of Adjusted Total Income of 5,00,000) = 70,000, (c) 1,25,000 (25% of Adjusted Total Income of 5,00,000) = 60,000.
- M55.** Adjusted total income (ATI) = 12,00,000 GTI – 1,00,000 LTCG – 1,00,000 deduction u/s 80CCC = 10,00,000. // Deduction u/s 80GG = Lower of (a) 60,000 (5,000 p.m.), (b) 20,000 (1,20,000 rent paid – 1,00,000 being 10% of ATI), (c) 2,50,000 (25% of ATI) = 20,000. // Total income = 12,00,000 GTI – 1,00,000 Deduction u/s 80CCC – 20,000 Deduction u/s 80GG = 10,80,000
- M56.** Deduction of up to 50,000 is allowed u/s 80TTB to an individual resident in India who is of the age of 60 years or more at any time during the relevant PY
- M57.** Income included in GTI = 20,000 – 3,500 exempt u/s 10 = 16,500. Total income = 16,500 – 10,000 deduction u/s 80TTA = 6,500
- M58.** Total income = GTI of 3,00,000 – Deduction u/s 80C for deposit in 5Y POTD of 1,00,000 – Deduction u/s 80TTA of 9,500 = 1,90,500. // Deduction u/s 80TTA (he is not a senior citizen as he is not a resident) = 3,500 on POSA (after exemption of 3,500) + 6,000 on SBI savings A/c + NIL for FD = 9,500.
- M59.** GTI = IHP 3,00,000 + Interest on FD 20,000 + Interest on savings a/c with coop bank 10,000 + PPF interest NIL as it is exempt + Interest on RD 25,000 + POSA interest 10,000 (13,500 – 3,500 exempt) = 3,65,000. // Deduction u/s 80TTB (as Virat is a senior citizen) = 20,000 on FD + 10,000 on Savings A/c with coop bank + 25,000 on RD + 10,000 on POSA = 65,000, allowed up to 50,000. // Total income = 3,65,000 GTI – 50,000 deduction u/s 80TTB = 3,15,000
- M59a.** Deduction u/s 80TTB = 15,000 from BOI + 10,000 from coop bank = 25,000. Interest from NBFC is not eligible.
- M60.** Deduction is to be allowed only to the extent the income computed as per the provisions of this Act is included in the GTI.
- M62.** Since cash payments and cash receipts, each exceed 5% of total payments and total receipts, respectively, tax audit limit u/s 44AB is 1 crore. Hence, tax audit applies and deduction u/s 80JJAA is available. // Additional employees = 5 people employed – 1 (salary is > 25,000 p.m.) – 1 (resigned, hence, employed for < 240 days) – 1 (did not participate in RPF) = 2. Additional employee cost = 2 × 25,000 × 11 = 5,50,000. // Deduction u/s 80JJAA @ 30% = 1,65,000. // Cash payment is not a bar in the first year of a new business.
- M63.** Net addition of employees = 5 - 2 = 3. Appointment made on 1.10.2022 is not eligible as emoluments are > 25,000 p.m. // Additional employee cost = 3 employees × 20,000 p.m. × 10 months = 6,00,000. // Deduction u/s 80JJAA @ 30% = 1,80,000
- M65.** Royalty = 20% of 20 lakh = 4 lakh. Royalty ignoring excess of 15% = 3 lakh. Royalty repatriated by 30.9.2023 = 80% of 4 lakh = 3.2 lakh. Deduction u/s 80QQB is lower of eligible amount of 3 lakh (lower of 3 lakh or 3.2 lakh) or limit of 3 lakh = 3 lakh.
- M66.** Deduction u/s 80QQB is lower of 4,00,000 or 3,00,000 = 3,00,000.
- M67.** Income repatriated to India by 30.9.2023 = 60% of 4,50,000 = 2,70,000. Deduction u/s 80RRB = lower of 2,70,000 or 3,00,000 = 2,70,000.



# 13 Computation of Total Income & Tax Liability

## Build Your Confidence (BYC)

*Note: For your benefit, certain questions have been solved, taking into account the provisions of 115BAC, even though not required by the question. Further, minor modifications have been done to certain questions to align with changes in law. Questions have been suitably modified to meet these objectives.*

**B1. CA2022(MAY)** – Mrs. Nisha, a resident individual aged 54 years, is carrying on business of manufacturing of textile fabrics, as a proprietor. The turnover in the PY 2021-22 was Rs. 250 lakhs and in the current PY 2022-23, it is Rs. 600 lakhs. The net profit as per the profit and loss account as on 31.3.2023 is Rs. 5,61,000. She provides the following additional information that were not considered while making the profit and loss account for the previous year 2022-23.

1: Depreciation has not been debited to P&L A/c. The details of the plant & machinery employed in the business are given as under:

Date	Particulars	Rs.
1.4.2022	Opening written down value of machinery used for manufacturing purpose	4,75,000
3.7.2022	New machinery purchased during the year, payment made by an account payee cheque.	7,25,000
10.3.2023	Sold one of the old machine	75,000

She does not have any other fixed assets employed in the business.

2: Received subsidy of 20% on new machine purchased on 3.7.2022 during the PY under technology upgradation fund Scheme from the Central Government.

3: She paid job charges for value addition on fabrics Rs. 90,000 without deduction of tax to job worker by an account payee cheque.

4: Commission paid to one agent allowed as deduction in earlier AY amounting Rs. 50,000, has now been received back during PY 2022-23, from the agent due to settlement with commission agent.

5: Rs. 25,000 paid to creditor for goods in cash.

6: Incurred loss of Rs. 1,17,500 from an eligible transaction carried out in respect of trading in derivatives in a recognised stock exchange.

7: Interest received amounting Rs. 2,00,000, duly authorised by partnership deed of M/s Ramji textiles @ 15% p.a. on the capital employed. She is sleeping partner in the Ramji textiles.

8: She received Rs. 60,000 by pre-mature withdrawals from deposit including interest Rs. 5,000, in post office time deposit, eligible for deduction under section 80C.

9: She sold her gold bracelet (jewellery), used by her for personal purposes, on 1.5.2022 for Rs. 5,00,000, which was acquired for Rs. 40,000 on 1.3.2006. A diamond was embedded onto bracelet on 1.5.2008 of Rs. 50,000.

10: She received a gold coin (bullion) worth Rs. 55,000 (FMV) from her cousin (daughter of uncle) during the PY 2022-23.

11: She incurred long term loss from sale of share of Indian company. (STT is paid on the sale and purchase of the shares) Rs. 75,000.

12: She deposited a sum of Rs. 50,000 with life insurance Corporation of India every year for the maintenance of her mother aged 70 years dependent upon him and suffering from severe disability.



13: She purchased the new residential house during the PY and paid stamp duty and registration fee Rs. 1,55,000 to get transfer the property in her name.

You are required to compute the total income and tax payable by Mrs. Nisha for AY 2023-24. (Ignore the provisions of Section 115BAC). Give brief note wherever necessary.

**Computation of total income and tax payable by Mrs. Nisha for AY 2023-24**

Particulars	Rs.	Rs.	Rs.
<b>Profits and gains of business or profession:</b>			
Net profit as per P&L account		5,61,000	
<i>Less: Depreciation not debited to P&amp;L:</i>			
WDV for depreciation = Opening WDV of 4,75,000 + Actual cost of new machinery 5,80,000 (7,25,000 – 1,45,000 subsidy @ 20%) – Moneys payable for sale of machine 75,000 = 9,80,000. It is assumed that purchase value of new machine does not exclude subsidy.			
Normal depreciation @ 15% of WDV of 9,80,000	(1,47,000)		
Additional depreciation on new machine used for manufacturing business @ 20% of 5,80,000	(1,16,000)		
		(2,63,000)	
<i>Less: Amounts deductible but not debited to P&amp;L:</i>			
Job charges = 90,000 – 27,000 disallowed u/s 40(a)(ia) @ 30% due to payment without deducting TDS u/s 194C <sup>1</sup>	(63,000)		
Payment to creditor = 25,000 but disallowed u/s 40A(3) as amount paid in cash to a person (assuming it is paid in a day) is > 10,000.	-	(63,000)	
<i>Add: Amounts taxable under the head PGBP but not credited to P&amp;L:</i>			
U/s 41(1): Commission, allowed as deduction in earlier AY, now received back	50,000		
U/s 28(v): Interest from partnership firm to the extent allowed to the firm @ 12% = (12 / 15) × 2,00,000	1,60,000	2,10,000	
Profit from manufacturing business		4,45,000	
Less: Derivative loss: Trading in derivatives in a recognised stock exchange is not speculative transaction u/s 43(5). Loss from trading is business loss. Hence, it is set off u/s 70 against profit from manufacturing business.		(1,17,500)	
			3,27,500
<b>Capital gains:</b>			
LTCG on sale of gold bracelet (as POH is > 36 months):			
• Full value of consideration		5,00,000	
• Less: Indexed COA = 40,000 × (331 (CII for 2022-23) / 117 (CII for 2005-06))		(1,13,162)	
• Less: Indexed COI = 50,000 × (331 (CII for 2022-23) / 137 (CII for 2008-09))		(1,20,803)	
LTCG u/s 112 <sup>2</sup>		2,66,035	
Less: Long term capital loss u/s 112A on sale of shares set off u/s 70		(75,000)	
LTCG u/s 112			1,91,035
<b>Income from other sources:</b>			
Premature withdrawal of 5 year POTD deemed to be income in the year of withdrawal = 60,000 – 5,000 Interest (assuming it has already been taxed in the preceding years on accrual basis) = 55,000. Deduction u/s 80C availed earlier is now reversed.		55,000	
Income u/s 56(2)(x) on receipt of gold coin: Daughter of uncle is not a relative. Taxable as FMV is > 50,000.		55,000	
			1,10,000
Gross total income			6,28,535
Less: Deduction u/c VIA allowed from GTI (excluding LTCG u/s 112):			

<sup>1</sup> TDS is deductible u/s 194C as the turnover of Mrs. Nisha is > 1 crore during the preceding FY. Refer para 216 of Concepts Book.

<sup>2</sup> Point No. 13 refers to purchase of a new residential house. Exemption from capital gain can be claimed u/s 54F on account of sale of jewellery and purchase of house. However, the cost of new house is not given in the question (though amount of stamp duty and registration fee are given). Further, it is not mentioned whether she owns more than 1 residential house (other than the new house) on the date of sale of jewellery. Hence, exemption u/s 54F has not been provided.

Deduction u/s 80C for stamp duty and registration fee of 1,55,000 allowed up to 1,50,000.	1,50,000	
Deduction u/s 80DD for deposit with LIC for maintenance of dependent mother for severe disability: Fixed deduction of 1,25,000 is allowed.	1,25,000	
		(2,75,000)
<b>Total income</b>		<b>3,53,535</b>
<b>Composition of total income:</b>		
LTCG u/s 112 taxable @ 20%	1,91,035	
Balance income taxable at regular rates (3,53,535 – 1,91,035)	1,62,500	
Unexhausted basic exemption limit = 2,50,000 – 1,62,500	87,500	
Tax on LTCG u/s 112 @ 20% on 1,03,535 (1,91,035 – 87,500). Tax on balance income of 1,62,500 is Nil.		20,707
Less: Rebate u/s 87A as total income does not exceed 5 lakh		(12,500)
		8,207
Add 4% HEC		328
<b>Tax liability</b>		<b>8,535</b>
<b>Tax liability (rounded off)</b>		<b>8,540</b>

**B2. CA2022(MAY)** – From the following particulars furnished by Mr. Suresh, aged 53 years, a resident Indian for the PY ended March 31, 2023, you are requested to compute his total income and tax payable for the AY 2023-24. (Assuming he does not opt for the Section 115BAC):

1: He sold his vacant land on 9.12.2022 for Rs. 15 lakhs. The Stamp Duty Value (SDV) of land at the time of transfer was Rs. 19 lakhs. The fair market value of the land as on 1.4.2001 was Rs. 6 lakhs (SDV is Rs. 5,00,000). This land was acquired by him on 5.8.1996 for Rs. 3.40 lakhs. He had incurred registration expenses of Rs. 15,000 at that time.

2: He owns an industrial undertaking established in a Special Economic Zone (SEZ) and which had commenced operation during the FY 2019-20. Total turnover of the undertaking was Rs. 300 lakhs, which includes Rs. 120 lakhs from export turnover. This industrial undertaking fulfils all the conditions of Section 10AA. Profit from this industrial undertaking is Rs. 30 lakhs.

3: He has income of Rs. 10,000 from crossword puzzles and Rs. 15,000 gross interest from bank fixed deposit.

4: Tuition fees of Rs. 36,000 for his three children to a school. The fees being Rs. 12,000 p.a. per child.

■

*Computation of total income of Mr. Suresh for AY 2023-24*

Particulars	Rs.	Rs.
<b>Profits and gains of business or profession</b>		
Profit from industrial undertaking		30,00,000
<b>Capital gains</b>		
FVC on sale of vacant land u/s 50C = SDV, as SDV is > 110% of consideration	19,00,000	
Less: Indexed COA = COA 5,00,000 (higher of COA of 3,55,000 (3,40,000 cost + 15,000 registration expenses) or FMV on 1.4.2001 of 6,00,000 (which can't exceed SDV of 5,00,000)) × (331/100)	(16,55,000)	
LTCG u/s 112		2,45,000
<b>Income from other sources</b>		
Interest from bank FD	15,000	
Crossword puzzles	10,000	
		25,000
<b>Gross total income</b>		<b>32,70,000</b>
Less: Deduction u/s 80C for tuition fees for any 2 children		(24,000)
Total income before deduction u/s 10AA		32,46,000
Less: Deduction u/s 10AA: PY 2022-23 is within the 5-year period from the year the undertaking commenced operation. Deduction (@ 100%) = Profit of Unit × (Export turnover of unit / Total turnover of unit) = 30 lakh × (120 lakh / 300 lakh)		(12,00,000)
<b>Total income</b>		<b>20,46,000</b>

*Computation of tax liability as per regular provisions for AY 2023-24*

Particulars	Rs.
Tax u/s 115BB on income from crossword puzzles @ 30% of 10,000	3,000
Tax u/s 112 on LTCG of 2,45,000 @ 20%	49,000

Tax at regular rates on balance income of 17,91,000	3,49,800
	4,01,800
4% HEC	16,072
<b>Regular tax</b>	<b>4,17,872</b>
<b>Regular tax (rounded off)</b>	<b>4,17,870</b>

Computation of tax liability as per AMT provisions as Suresh has claimed deduction u/s 10AA and not opted for section 115BAC

Particulars	Rs.
<b>Computation of Adjusted Total Income</b>	
Total income	20,46,000
Add: Deduction u/s 10AA	12,00,000
	32,46,000
Is AMT applicable? Deduction is claimed u/s 10AA, ATI is > 20 lakh and he has not exercised the option u/s 115BAC	Yes
<b>Computation of Alternate Minimum Tax</b>	
AMT @ 18.5% of ATI	6,00,510
Add: HEC @ 4%	24,020
<b>AMT liability</b>	<b>6,24,530</b>

Since regular tax is less than AMT, ATI is deemed to be the total income and AMT is the tax liability. AMT credit available = 6,24,530 – 4,17,870 = 2,06,660. Tax payable is the same as tax liability since no TDS has been deducted on crossword puzzles u/s 194B as winning does not exceed Rs. 10,000 and no TDS has been deducted on FD interest u/s 194A as it does not exceed Rs. 40,000.

**B3. CA2021(DEC)** – Mr. Shivansh, a resident and ordinarily resident aged 61 years, is engaged in the business of manufacturing of motor parts. He is subject to tax audit u/s 44AB of Income-tax Act, 1961. He has provided following information:

Profit and Loss account for the year ended 31 March 2023

Particulars	Rs.	Particulars	Rs.
To Administrative expenses	4,30,000	By Gross profit	58,30,000
To Salaries & wages	20,00,000	By Profit on sale of asset for scientific research	2,00,000
To Interest on loans	7,50,000	By Winning from lottery (net of TDS @ 30%)	31,500
To Depreciation	6,17,000		
To Professional fees	2,70,000		
To Rent, rates & taxes	2,80,000		
To Travelling & conveyance	1,40,000		
To Net profit	15,74,500		
<b>Total</b>	<b>60,61,500</b>	<b>Total</b>	<b>60,61,500</b>

Explanatory information:

1: Opening and closing stock of finished goods were undervalued by 10%. Opening stock of Rs. 4,50,000 and Closing stock of Rs. 5,58,000 was shown.

2: Salaries & wages include following items:

(a) Contributed 20% of basic salary in National Pension Scheme referred in section 80CCD regarding salary paid to an employee Mr. Ganesh who has withdrawn basic salary of Rs. 3,00,000 and dearness allowance is 40% of basic salary. 50% of dearness allowance forms part of the salary.

(b) Some of the employees opted for retirement under the voluntary retirement scheme; a sum of Rs. 2,40,000 was paid to them on 1.1.2023.

3: Interest on loan includes interest paid @ 15% per annum on loan of Rs. 12,00,000 which was taken from State Bank of India on 1.5.2022 for purchase of new electric car of Rs. 15,00,000. The car is used for personal purpose.

4: Depreciation allowable as per Income-tax Rules, 1962 is Rs. 4,50,000 but during the calculation of such depreciation following addition was not considered: Motor car purchased for Rs. 3,00,000 for supply of finished goods to dealers on 25.8.2022.

5: An asset was purchased for Rs. 6,00,000 on 17.11.2021 for conducting scientific research and the deduction was claimed under section 35 of the Income-tax Act, 1961. This asset was sold on 5.9.2022 for a consideration of Rs. 8,00,000.

Other information:

A plot of Industrial land which was used by Mr. Shivansh for business purpose for last 10 years was compulsorily acquired by Central Government on 7.5.2022. The compensation of Rs. 12,00,000 was received on 27.2.2023. Such property was purchased by him on

8.8.2007 for Rs. 2,00,000. He has purchased another plot of industrial land on 21.4.2023 for Rs. 6,00,000. Government has also paid Rs. 54,000 as interest on such compensation on 28.3.2023.

Compute the total income and tax liability of Mr. Shivansh for the assessment year 2023-24 assuming that he has not opted for the provisions of section 115BAC. Ignore Provisions relating to AMT.

Computation of total income of Shivansh for AY 2023-24

Particulars	Rs.	Rs.	Rs.
<b>Profits and gains of business or profession</b>			
Net profit		15,74,500	
Add: Undervaluation of closing stock = 10% of 6,20,000 (5,58,000 × (100/90))	62,000		
Less: Undervaluation of opening stock = 10% of 5,00,000 (4,50,000 × (100/90))	(50,000)		
		12,000	
<i>Add: Items debited but not deductible:</i>			
Employer's contribution to NPS:			
Contribution @ 20% of basic salary of 3,00,000	60,000		
Less: Deductible u/s 36(1)(iva) up to 10% of salary (basic + DA forming part of salary), i.e., 10% of 3,60,000 (3,00,000 basic + 60,000 DA (50% of 40% of basic)). Assuming provision of section 43B is complied with.	(36,000)		
	24,000		
VRS expenditure: Deductible in 5 equal annual instalments from PY 2022-23 u/s 35DDA. Thus, 4/5 <sup>th</sup> is disallowed.	1,92,000		
Interest on loan for purchase of new electric car used for personal purpose: Not deductible as car is used for personal purpose; @ 15% of 12,00,000 for 11 months.	1,65,000		
Depreciation as per books	6,17,000		
		9,98,000	
<i>Add: Items taxable but not credited:</i>			
Sale of asset used for scientific research: Deemed profits u/s 41(3) = Lower of sale proceeds of 8,00,000 or deduction made u/s 35 of 6,00,000 = 6,00,000. Amount taxable = 6,00,000 – 2,00,000 already credited.		4,00,000	
<i>Less: Items credited but taxable under another head of income</i>			
Winning from lottery (taxable under the head IFOS)		(31,500)	
<i>Less: Depreciation</i>			
Depreciation as per Act	4,50,000		
Depreciation on motor car purchased for supply of finished goods to dealers: @ 15% of 3,00,000; motor car is put to use for ≥ 180 days. Additional depreciation is not allowable on motor car.	45,000		
		(4,95,000)	
			24,58,000
<b>Capital gains</b>			
Short term capital gain on sale of asset used for scientific research (as asset is held for not more than 36 months):			
Full value of consideration	8,00,000		
Less: Cost of acquisition	(6,00,000)		
		2,00,000	
Long term capital gain on compulsory acquisition of industrial land (computed u/s 45(5)):			
Full value of consideration = Compensation	12,00,000		
Less: ICOA = COA of 2,00,000 × (CII of 2022-23 of 331 / CII of 2007-08 of 129)	(5,13,178)		
	6,86,822		
Less: Exemption u/s 54D as land is used in the business of industrial undertaking in the 2 years preceding the date of transfer, transfer is by way of compulsory acquisition and Shivansh purchases another industrial land (assuming it is for the purpose of shifting or re-establishing the existing industrial unit or setting up another industrial unit) within 3 years from receipt of compensation = Lower of capital gain or cost of new asset	(6,00,000)		

	86,822	
		2,86,822
<b>Income from other sources</b>		
Winning from lottery: Gross winning = $31,500 \times (100/70)$	45,000	
Interest on compensation = 54,000 – Deduction of 50% u/s 57(iv)	27,000	
		72,000
<b>Gross total income</b>		<b>28,16,822</b>
Less: Deduction u/c VIA: U/s 80EEB for interest on loan taken to purchase electric car: Deduction allowed up to 1,50,000		(1,50,000)
<b>Total income (rounded off: 26,66,820)</b>		<b>26,66,822</b>

*Computation of tax liability of Shivansh for AY 2023-24 (he is a senior citizen)*

Particulars	Rs.
Tax on LTCG u/s 112 @ 20% of 86,822	17,364
Tax on winning from lottery u/s 115BB @ 30% of 45,000	13,500
Tax on remaining total income of 25,35,000 at normal rates	5,70,500
	6,01,364
Add: HEC @ 4%	24,055
Tax liability	6,25,419
<b>Tax liability (rounded off)</b>	<b>6,25,420</b>

Determination of tax payable has not been asked in the question. Hence, adjustment of TDS is not required.

*Mistakes by students: Wrongly computed disallowance in respect of employer's contribution to NPS in excess of 10%. Did not add back 4/5<sup>th</sup> of VRS expenditure. 50% deduction not provided from interest on compensation. Deduction u/s 80EEB not provided.*

**B4. CA2021(DEC)** – Mishika has entered into an agreement with M/s CVM Build Limited on 25.04.2019 in which she agrees to allow such company to develop a shopping mall on land owned by her in New Delhi. She purchased such land on 5.5.2011 for Rs. 15,00,000. In consideration, M/s CVM Build Limited will provide 20% share in shopping mall to Mishika. The certificate of completion of shopping mall was issued by authority as on 26.12.2022. On such date, stamp duty value of shopping mall was Rs. 4,14,00,000. Subsequently on 18.3.2023, she sold her 15% share in shopping mall to Mr. Ketav in consideration of Rs. 65,00,000.

She has also purchased a house on 9.5.2022 in consideration of Rs. 46,00,000 and occupied for own residence. Punjab National Bank has sanctioned a loan of Rs. 35,50,000 (80% of stamp value) at the interest rate of 12% per annum on 31.3.2022 and disbursement was made on 1.6.2022. She does not own any other residential house on the date of sanction of loan. Principal amount of Rs. 1,30,000 was paid during the financial year 2022-23.

Compute total income of Mishika for AY 2023-24 assuming that she has not opted for the provisions under section 115BAC.

*Computation of total income of Mishika for AY 2023-24*

Particulars	Rs.	Rs.	Rs.
<b>Capital gains</b>			
<i>Long term capital gain arising u/s 45(5A) from Joint Development Agreement:</i>			
Full value of consideration = SDV of her share in the shopping mall on 26.12.2022 being the date of issue of COC = 20% of 4,14,00,000	82,80,000		
Less: ICOA = COA of 15,00,000 × (CII of 2022-23 of 331 assuming it is the year of transfer <sup>3</sup> / CII of 2011-12 of 184)	(26,98,370)		
Capital gain is taxable in PY 2022-23 in which COC is issued		55,81,630	
Less: Exemption u/s 54F on purchase of residential house within the stipulated period = LTCG of 55,81,630 × (Cost of new asset of 46,00,000 / net consideration of 82,80,000)		(31,00,906)	
		24,80,724	
<i>Short term capital gain on sale of her 15% share in shopping mall</i>			
Full value of consideration	65,00,000		

<sup>3</sup> Capital gain is charged u/s 45(5A) in the year in which COC for whole/part of the project is issued. However, the transfer of land/building takes place in the year in which possession is handed over to the developer since it may be construed as a transaction allowing possession of immovable property in part performance of a contract (referred u/s 53A of the Transfer of Property Act) which is a 'transfer' liable to capital gain. However, in absence of clarity in the question, it is assumed that the transfer took place during PY 2022-23 and computation has been made accordingly.

Less: COA = FVC taken u/s 45(5A) = 15% of 4,14,00,000	(62,10,000)		
		2,90,000	
			27,70,724
<b>Income from house property</b>			
NAV of self occupied house		Nil	
Less: Interest on loan u/s 24(b) @ 12% p.a. on 35,50,000 for 10 months (from 1.6.2022) = 3,55,000. Deductible up to 2,00,000		(2,00,000)	
			(2,00,000)
<b>Gross total income:</b> Loss from house property can be set off u/s 71 against capital gain up to 2 lakh. No order of priority is specified in the Act for set off. Hence, it is better to set off against LTCG (see Note)			<b>25,70,724</b>
<b>Less: Deductions under Chapter VIA</b>			
U/s 80C: Repayment of principal amount of loan		1,30,000	
U/s 80EEA: Eligible as residential house property is acquired using loan taken from bank, loan sanctioned during the period PY 2019-20 to PY 2021-22, SDV of 44,37,500 (35,50,000 × (100/80)) is not > 45 lakh and Mishika does not own any residential house property on date of sanction of loan. Remaining interest of 1,55,000 (3,55,000 – 2,00,000 allowed in computing IHP) is deductible up to the limit of 1,50,000.		1,50,000	
Deduction u/c VIA is not allowed on LTCG.			(2,80,000)
<b>Total income</b>			<b>22,90,724</b>
<b>Total income (rounded off)</b>			<b>22,90,720</b>

Note:

IHP loss of 2 lakh set off →	Against STCG	Against LTCG
LTCG	24,80,724	22,80,724
STCG	90,000	2,90,000
GTI	25,70,724	25,70,724
Less: Deduction u/c VIA (not allowed from LTCG)	(90,000)	(2,80,000)
Total income	24,80,724	22,90,724
Total income (rounded off)	24,80,720	22,90,720
Total income comprises of:		
• LTCG	24,80,720	22,80,720
• STCG	-	10,000
Tax (assuming Mishika is not a senior citizen and after adjusting unexhausted basic exemption limit against LTCG)	4,63,990	4,24,470

Tax liability is lower when IHP loss is set off against LTCG.

*Mistake by students: Did not provide exemption u/s 54F. Did not set off loss from house property against LTCG. Did not provide deduction u/s 80EEA.*

**B5. CA2021(DEC)** – Mr. X, an employee of the Central Government, is posted at New Delhi. He joined the service on 1.2.2019. Details of his income for the previous year 2022-23, are as follows:

1: Basic salary: Rs. 3,80,000

2: Dearness allowance: Rs. 1,20,000 (40% forms part of pay for retirement benefits)

3: Both Mr. X and Government contribute 20% of basic salary to the pension scheme referred to in section 80CCD.

4: Gift received by X's minor son on his birthday from friend: Rs. 70,000. (No other gift is received him during the PY 2022-23)

5: During the year 2015-16, Mr. X gifted a sum of Rs. 6,00,000 to Mrs. X. She started a business by introducing such amount as her capital. On 1.4.2022, her total investments in business was Rs. 10,00,000. During the previous year 2022-23, she has loss from such business Rs. 1,30,000

6: Mr. X deposited Rs. 70,000 in Sukanya Samridhi account on 23.1.2023. He also contributed Rs. 40,000 in an approved annuity plan of LIC to claim deduction u/s 80CCC.

7: He has taken an educational loan for his major son who is pursuing MBA course from Gujarat University. He has paid Rs. 15,000 as interest on such loan which includes Rs. 5,000 for the financial year 2021-22.

Determine the total income of Mr. X for the assessment year 2023-24 under the regular provisions as well as u/s 115BAC.

■ *Computation of total income of Mr. X for AY 2023-24 under regular provisions*

Particulars	Rs.	Rs.
<b>Income from salary</b>		
Basic salary	3,80,000	
Dearness allowance	1,20,000	
Employer's contribution to pension scheme referred u/s 80CCD @ 20% of basic salary	76,000	
Gross salary income	5,76,000	
Less: Standard deduction u/s 16(ia)	(50,000)	
		5,26,000
<b>Income from other sources</b>		
Gift received by minor son from friend: Clubbed with the income of Mr. X u/s 64(1A) assuming his total income, before such clubbing, is greater than Mrs. X. Income to be clubbed = 70,000 taxable u/s 56(2)(x) (as aggregate is > 50,000) – 1,500 exempt u/s 10(32).		68,500
<b>Profits and gains from business or profession</b>		
Loss from business of Mrs. X clubbed with the income of Mr. X u/s 64(1)(iv) = 1,30,000 loss from business × (6,00,000 gift to Mrs. X invested in business as on 1.4.2022 / 10,00,000 total investment in business by Mrs. X as on 1.4.2022) = 78,000. This is set off against IFOS u/s 71. It cannot be set off against income from salary. Unabsorbed loss of 9,500 is carried forward u/s 72 to the next AY.		(68,500)
<b>Gross total income</b>		<b>5,26,000</b>
<b>Less: Deductions under Chapter VIA:</b>		
U/s 80C: Deposit in Sukanya Samriddhi Account	70,000	
U/s 80CCC: Contribution to approved annuity plan of LIC	40,000	
U/s 80CCD(1) (see Note)	26,000	
Allowed u/s 80CCE (limit is 1,50,000)	1,36,000	
U/s 80CCD(1B)	50,000	
U/s 80CCD(2)	59,920	
U/s 80E: Interest on loan taken for higher education is deductible on payment basis (assuming the other conditions of section 80E have been fulfilled)	15,000	
		(2,60,920)
<b>Total income</b>		<b>2,65,080</b>

*Note: Computation of deduction u/s 80CCD*

Particulars	Rs.
Salary for the purpose of section 80CCD = Basic + DA (forming part of pay for retirement benefits)	
• Basic salary	3,80,000
• Dearness allowance forming part of pay @ 40%	48,000
	4,28,000
Deduction u/s 80CCD:	
Deduction u/s 80CCD(1B) for own contribution: Deductible up to Rs. 50,000	50,000
Deduction u/s 80CCD(1) for own contribution (excluding contribution considered u/s 80CCD(1B)): 26,000 (76,000 – 50,000); deductible up to 42,800 (10% of 80CCD-Salary)	26,000
Deduction u/s 80CCD(2) for employer's contribution: deductible up to 14% of 80CCD-Salary, i.e., 59,920	59,920

*Computation of total income of Mr. X for AY 2023-24 u/s 115BAC*

Particulars	Rs.
Total income	2,65,080
Add: Standard deduction: Blocked	50,000
Add: Exemption u/s 10(32): Blocked	1,500
Add: Deductions under Chapter VIA (except u/s 80CCD(2)): Blocked	2,01,000
Total income u/s 115BAC	5,17,580

*Mistake by students: Could not correctly the deductions u/s 80CCD in respect of contribution towards NPS in case of Central Government employee.*

**B6. CA2021(DEC)** – Ms. Aanchal aged 40 years is an advocate (Taxation). She keeps her books of accounts on cash basis. Her profit & loss account for the year ended on March 31, 2023 is as follows:

*Profit & Loss Account for the year ending March 31, 2023*

	Rs.		Rs.
Staff salary	20,10,000	Fees earned from:	
Rent	9,00,000	Taxation services: 20,00,000	
Administrative expenses	6,50,000	Appeals: 15,00,000	
Incentives to office staff	2,00,000	Consultancy: 15,00,000	50,00,000
Meetings, seminars and conferences	1,70,000	Dividend from an Indian company (gross) on 1.7.2022	11,00,000
Purchase of car (for official use) on 1.7.2022	3,00,000	Interest on deposit certificates issued under Gold Monetization Scheme, 2015	25,000
Repairs, maintenance and petrol of car	35,000	Gifts	1,00,000
Travelling expenses	5,00,000	Honorarium received for valuation of answer papers	50,000
Municipal tax paid in respect of house property	9,000	Rent received in respect of house property	90,000
Net profit	15,91,000		
	<b>63,65,000</b>		<b>63,65,000</b>

Other information:

1: Gifts represent fair market value of an 'iPhone12 pro', which was given by one of her clients for successful presentation of case in the Income Tax Appellate Tribunal.

2: Administrative expenses include Rs. 50,000 paid to a tax consultant in cash for assisting Ms. Aanchal in one of the professional assignments.

3: The traveling expenses include expenditure incurred on foreign professional tour of Rs. 50,000 which was within the RBI norms.

4: Ms. Aanchal paid medical insurance premium for her parents (senior citizens and not dependent on her) online amounting Rs. 47,000. She also paid Rs. 8,500 by cash towards preventive health check-up for herself and her spouse.

5: Repairs and maintenance of car include Rs. 25,000 for the period from 1.10.2022 to 30.9.2023.

6: She has paid Rs. 1,00,000 towards advance tax during the P.Y. 2022-23.

Compute Total Income and Net Tax Payable as per the most beneficial taxation scheme for Ms. Aanchal for the A.Y. 2023-24.

■

*Computation of total income of Ms. Aanchal for AY 2023-24 (as per regular provisions)*

Particulars	Rs.	Rs.	Rs.
<b>Income from house property</b>			
Gross annual value: Rent is taken as GAV in absence of further information in the question		90,000	
Less: Municipal taxes paid during the PY		(9,000)	
Net annual value		81,000	
Less: Standard deduction u/s 24(a) @ 30%		(24,300)	
			56,700
<b>Profits and gains of business or profession</b>			
Net profit as per P&L account		15,91,000	
<i>Add: Expenses debited but not deductible:</i>			
Purchase of car: Entitled to depreciation	3,00,000		
Municipal tax paid for house property: Dealt with under the head IHP	9,000		
Payment to tax consultant: Disallowed u/s 40A(3) as paid to a person (assuming in a day) in cash exceeding Rs. 10,000	50,000		
Travel expenses on foreign professional tour within RBI norms: Deductible u/s 37(1). Hence, no further adjustment is required.	-		
Repair and maintenance of car paid in advance for PY 2023-24: This is deductible as books of accounts are kept on cash basis. Hence, no further adjustment is required.	-		
		3,59,000	
<i>Less: Incomes credited but not taxable under the head PGBP</i>			
Dividend from Indian company: Considered under the head IFOS	11,00,000		
Interest on deposit certificates: Considered under the head IFOS	25,000		



Honorarium received for valuation of answer papers: Considered under the head IFOS	50,000		
Rent from house property: Considered under the head IHP	90,000		
Gift from client: Taxable under the head PGBP u/s 28(iv) as benefit or perquisite arising from exercise of profession. Already credited. Hence, no further adjustment is required.	-		
		(12,65,000)	
Less: Depreciation on car @ 15% of 3,00,000		(45,000)	
See Note			6,40,000
<b>Income from other sources</b>			
Dividend from Indian company		11,00,000	
Interest on deposit certificates under Gold Monetization Scheme 2015: Exempt u/s 10		-	
Honorarium received for valuation of answer papers		50,000	
			11,50,000
<b>Gross total income</b>			<b>18,46,700</b>
Less: Deduction u/s 80D:			
Medical insurance premium for senior citizen parents: Deductible up to 50,000		47,000	
Preventive health check up: Deductible up to 5,000		5,000	
			(52,000)
<b>Total income</b>			<b>17,94,700</b>

Note: Profits and gains can be claimed u/s 44ADA at 50% of gross receipts of 50,00,000, i.e., 25,00,000. However, a lower amount of 6,40,000 as per books can be claimed to be the profits and gains if the books of account and other documents are maintained as required u/s 44AA and tax audit is done u/s 44AB.

*Computation of total income of Ms. Aanchal for AY 2023-24 (u/s 115BAC)*

Particulars	Rs.
Total income	17,94,700
Add: Deduction u/s 80D: Blocked	52,000
<b>Total income u/s 115BAC</b>	<b>18,46,700</b>

*Computation of tax liability of Ms. Aanchal for AY 2023-24*

Particulars	Regular rates	115BAC rates
Tax on 17,94,700 at regular rates and on 18,46,700 at 115BAC rates (plus HEC @ 4%)	3,64,946	3,03,170
Less: Advance tax paid	(1,00,000)	(1,00,000)
Less: TDS u/s 194 on dividend from an Indian company @ 10% of 11,00,000	(1,10,000)	(1,10,000)
Net tax payable	1,54,946	93,170
Net tax payable (rounded off)	1,54,940	93,170

Ms. Aanchal should exercise the option u/s 115BAC in the prescribed manner and make payment of net tax payable of Rs. 93,170. However, since she has income from business or profession, she should keep in mind the restrictive condition of withdrawal from the scheme (refer para 210.3 of Concepts Book).

**B7. CA2021(DEC) – Gopal, a resident aged 50 years furnishes the following information for the year ended on 31.3.2023:**

Income by way of salary (computed)	2,75,000
Income from house property	(1,85,000)
Business income – Retail business	1,20,000
Business income – Wholesale business	(1,00,000)
Brought forward business loss (AY 2021-22)	(1,35,000)
Long term capital gain from sale of listed equity shares (STT paid on sale and purchase of shares)	2,00,000
Lottery winnings (gross)	45,000
Contribution to provident fund and NSC	1,50,000
Income of minor daughter Manisha from special talent	2,00,000
Interest from bank received by Manisha on deposit made out of her special talent	15,000

Compute his income tax liability assuming that he does not opt for section 115BAC and his wife does not earn any income.

■

## Computation of total income of Gopal for AY 2023-24

Particulars	Rs.	Rs.
<b>Salaries</b>		
Income by way of salary (computed)	2,75,000	
Less: Loss under the head IHP set off u/s 71	(1,85,000)	
		90,000
<b>Profits and gains of business or profession</b>		
Business income – Retail business	1,20,000	
Less: Loss from wholesale business set off u/s 70	(1,00,000)	
	20,000	
Less: Brought forward business loss of AY 2021-22 u/s 72 set off. Unabsorbed loss of 1,15,000 is carried forward to AY 2024-25 u/s 72.	(20,000)	
		Nil
<b>Capital gains</b>		
Long term capital gain from sale of listed equity shares (STT paid on sale and purchase of shares)		2,00,000
<b>Income from other sources</b>		
Lottery winnings (gross)	45,000	
Income of minor daughter Manisha from special talent: Not clubbed with income of Gopal as it is on account of special talent	-	
Interest from bank received by Manisha on deposit made out of her special talent: Clubbed with income of Gopal u/s 64(1A) (as his total income, without such clubbing, is greater than that of his wife) after giving exemption of 1,500 u/s 10(32)	13,500	
		58,500
Gross total income		3,48,500
Less: Deduction u/s 80C for contribution to provident fund and NSC of 1,50,000 (not allowed on LTCG and lottery winning)		(1,03,500)
<b>Total income</b>		<b>2,45,000</b>

## Computation of tax liability of Gopal for AY 2023-24

Particulars	Rs.
Tax on lottery winnings u/s 115BB @ 30% of 45,000	13,500
Tax on LTCG (exceeding 1,00,000) u/s 112A @ 10%. Unexhausted basic exemption limit of 2,50,000 can be exhausted against such LTCG. Hence, no tax.	-
	13,500
Less: Rebate u/s 87A	(12,500)
	1,000
Add: HEC @ 4%	40
<b>Tax liability</b>	<b>1,040</b>

**B8.** Rahul, a resident of age 55 years, carries on a manufacturing business. His Trading and Profit & Loss Account for the PY 2022-23 is given below.

## Trading and Profit &amp; Loss Account

	Rs.		Rs.
Opening stock	5,62,500	Sales	2,33,25,000
Purchases	1,88,62,500	Closing stock	6,75,000
Freight	1,89,000		
Gross profit	43,86,000		
	<b>2,40,00,000</b>		<b>2,40,00,000</b>
Bonus to workmen	71,250	Gross profit	43,86,000
Advertisement expenses	7,500	Refund of income tax	30,000
Interest on loan	2,51,250	Charges for warehousing	22,50,000
GST paid on demand by tax authority	1,62,525		
Rent for premises	80,250		

Bad debts	1,12,500	
Depreciation	1,07,250	
Miscellaneous expenses	7,88,475	
Net profit	50,85,000	
	<b>66,66,000</b>	<b>66,66,000</b>

**Additional information:**

1: Charges for warehousing credited above are from letting of warehousing facility set up for storage of sugar. The warehouse was purchased for Rs. 20 lakh on 1.6.2022.

2: Interest on refund of Rs. 4,570 is included in the amount of refund of income tax.

3: Rs. 7,500 of bonus related to the preceding PY but was paid in the month of January 2023. This is included in the amount of bonus debited to Trading and P&L account.

4: Included in the GST demand made by the tax authority of Rs. 1,62,525 is Rs. 5,300 of penalty levied for delayed filing of GST return and Rs. 12,750 of interest for delayed deposit of GST to the account of the Government.

5: Rs. 15,000 paid to customer as penalty for breach of terms of a contract of sale is included in the miscellaneous expenses.

6: Depreciation computed under the Income-tax Act, 1961 is Rs. 65,000.

7: Rs. 80,000 was paid to a resident as interest on loan (debited above) without deducting tax at source.

8: Advertisement expenses include Rs. 2,500 paid for advertisement in the brochure published by Janata Party, a political party. The amount was paid by account payee cheque.

9: Contribution of Rs. 1,00,000 to Janata Party is included in miscellaneous expenses. The amount was paid by bearer cheque.

Compute the total income and tax liability of Rahul for AY 2023-24 in a manner which is most beneficial to him.

■

**Computation of total income of Rahul for AY 2023-24**

Particulars	Rs.	Rs.
<b>Profits and gains of business or profession</b>		
<b>Income from business (other than the specified business referred u/s 35AD)</b>		
Net profit as per Trading and P&L account		50,85,000
<i>Less: Income credited but not taxable under the head PGBP:</i>		
Refund of income tax: Refund is not taxable and interest on refund included in this amount is taxable under the head IFOS.		(30,000)
<i>Add: Expenses debited but not deductible under the head PGBP:</i>		
Advertisement in brochure published by political party: Disallowed u/s 37(2B)	2,500	
Contribution to political party: Considered under deduction u/s 80GGC from GTI	1,00,000	
Bonus of preceding PY: It was disallowed u/s 43B in the preceding PY as paid after the due date to furnish return of that year. It is deductible in current PY in which it is paid. No adjustment required since it is already debited.	-	
Penalty paid to customer for breach of contract of sale: Deductible u/s 37(1) as it is for breach of contract, not for breach of law. No adjustment required as it is already debited.	-	
Penalty for delayed filing of GST return: Not allowed as it is for breach of law.	5,300	
Interest for delayed deposit of GST: Deductible. Hence, no further adjustment is required.	-	
Depreciation as per books: Considered separately	1,07,250	
Interest on loan paid to resident without TDS: 30% is disallowed u/s 40(a)(ia)	24,000	
		2,39,050
Less: Depreciation under the Act		(65,000)
Less: Charges for warehousing (separately considered below)		(22,50,000)
		29,79,050
<b>Income from specified business referred u/s 35AD, i.e., business of setting up and operating warehousing facility for storage of sugar</b>		
Charges for warehousing	22,50,000	
Less: Deduction u/s 35AD @ 100% of expenditure of capital nature (warehouse) incurred for specified business	(20,00,000)	
		2,50,000
		32,29,050

<b>Income from other sources</b>	
Interest on income tax refund	4,570
<b>Gross total income</b>	<b>32,33,620</b>
Less: Deduction u/s 80GGC for contribution to political party not paid in cash	(1,00,000)
<b>Total income</b>	<b>31,33,620</b>

*Computation of tax liability under regular provisions*

Particulars	Rs.
Tax on total income	7,52,586
Add: HEC @ 4%	30,103
Tax liability	7,82,689
<b>Tax liability (rounded off)</b>	<b>7,82,690</b>

*Computation of AMT u/s 115JC as Rahul has claimed deduction u/s 35AD*

Computation of Adjusted Total Income	Rs.
Total income	31,33,620
Add: Deduction u/s 35AD	20,00,000
Less: Depreciation allowable u/s 32 (@ 10%), as if no deduction u/s 35AD was allowed, in respect of warehouse on which deduction u/s 35AD is claimed	(2,00,000)
Adjusted total income	49,33,620
Is AMT applicable? Yes, since deduction is claimed u/s 35AD, ATI is > 20 lakh and (if) Rahul has not exercised the option u/s 115BAC	Yes
Computation of Alternate Minimum Tax	Rs.
AMT @ 18.5% of ATI	9,12,720
Add: HEC @ 4%	36,509
AMT liability	9,49,229
<b>AMT liability (rounded off)</b>	<b>9,49,230</b>

Since regular tax is less than AMT, adjusted total income is deemed to be the total income and Rahul is liable to pay AMT. AMT credit will be available of 1,66,540 (9,49,230 – 7,82,690). However, tax liability u/s 115BAC should also be determined to decide the course of action which is most beneficial to Rahul.

*Computation of total income u/s 115BAC*

Particulars	Rs.
Total income	31,33,620
Add: Deduction u/s 35AD: Blocked	20,00,000
Less: Depreciation allowable u/s 32 (@ 10%) if deduction is not allowed u/s 35AD	(2,00,000)
Add: Deduction u/s 80GGC: Blocked	1,00,000
<b>Total income u/s 115BAC</b>	<b>50,33,620</b>

*Computation of tax liability u/s 115BAC*

Particulars	Rs.
Tax on total income u/s 115BAC	12,47,586
Add: Surcharge @ 10% as total income is > 50 lakh but up to 1 crore	1,24,759
	13,72,345
Marginal relief is available (refer para 14 of Concepts Book for range of total income to check for marginal relief).	
Tax and SC cannot exceed " <b>Tax on 50 lakh + (TI – 50 lakh)</b> " = 12,37,500 + (50,33,620 - 50,00,000) = 12,71,120. Thus, marginal relief = 13,72,345 – 12,71,120.	(1,01,225)
	12,71,120
Add: HEC @ 4%	50,845
Tax liability u/s 115BAC	13,21,965
<b>Tax liability u/s 115BAC (rounded off)</b>	<b>13,21,970</b>

Since tax liability u/s 115BAC is higher than the AMT, it is beneficial for Rahul not to opt for section 115BAC. He should pay AMT, as computed above, and avail of AMT credit which can be carried forward for being set off in accordance with the provisions.

**B9. CA2021(JUL)** – Mr. Arun is working as a Senior Manager in ABCD Bank, a listed commercial bank, in Delhi since January 2007. He gives the following details of his income for the PY 2022-23:

House rent allowance: Rs. 15,000 p.m.

Basic salary: Rs. 20,000 p.m.

Dearness allowance (50% forms part of retirement benefits): Rs. 5,000 p.m.

Bank paid Rs. 5,000 p.a. as premium on personal accident insurance policy taken for Mr. Arun. The bank also allotted 2,000 sweat equity shares to Mr. Arun in May 2022 at the rate of Rs. 1,300 per share. The fair market value of the share was Rs. 1,500 on the date of exercise of option by Mr. Arun. He sold all the shares for Rs. 2,100 on 31.3.2023 on registered stock exchange. Assume securities transaction tax has been paid.

He transferred Rs. 50,000 p.m. as rent, to the bank account of his mother, Mrs. Nirmal, who owned the house (municipal valuation Rs. 2 lakh) in which he stayed in Delhi. He also owns a house property in Kanpur, whose municipal valuation is Rs. 2,60,000 p.a. The fair rent is Rs. 2,20,000 p.a. and the standard rent fixed by the Rent Control Act is Rs. 2,40,000 p.a. The property was let out for a rent of Rs. 22,000 p.m. throughout the previous year. He also paid municipal taxes at the rate of 10% of the municipal valuation of the house at Kanpur during the previous year.

He has a son Aditya, aged 12 years having PAN, who is earning interest of Rs. 50,000 p.a. on a fixed deposit created by his late grandfather (Mr. Arun's father) in his name. Gross interest credited by the bank during the year amounted to Rs. 43,750.

He received the following gifts from his friends and relatives during the PY 2022-23:

1. Gold chain from friend worth Rs. 70,000
2. LED TV set from colleagues on completing 15 years in bank amounting to Rs. 1,00,000
3. Rs. 51,000 in cash from married sister of wife

Compute Mr. Arun's total income and gross tax liability for AY 2023-24 in a manner most beneficial to him.

■ Computation of total income of Mr. Arun for AY 2023-24 (as per regular provisions)

Particulars	Rs.	Rs.	Rs.
<b>Salaries</b>			
Basic salary @ 20,000 p.m.		2,40,000	
Dearness allowance @ 5,000 p.m.		60,000	
House rent allowance @ 15,000 p.m.	1,80,000		
Less: Exempt u/s 10(13A) = Lower of:			
• HRA received Rs. 1,80,000			
• Rent paid – 10% of salary = 6,00,000 (@ 50,000 p.m.) – 27,000 (10% of 2,70,000 (basic 2,40,000 + DA forming part of retirement benefits 30,000)) = 5,73,000			
• 50% of salary = 1,35,000	(1,35,000)		
		45,000	
Personal accident policy premium: Exempt		-	
Taxable value of sweat equity shares:			
• FMV on date of exercise of option @ 1,500 per share	30,00,000		
• Less: Amount paid @ 1,300 per share	(26,00,000)		
		4,00,000	
Gross salary		7,45,000	
Less: Standard deduction u/s 16(ia)		(50,000)	
			6,95,000
<b>Income from house property (Kanpur)</b>			
Expected rent = Higher of municipal valuation or fair rent but not exceeding standard rent	2,40,000		
Actual rent	2,64,000		
Gross annual value = Higher of expected rent or actual rent		2,64,000	
Less: Municipal taxes paid by Mr. Arun during the PY @ 10% of municipal valuation		(26,000)	
Net annual value		2,38,000	
Less: Deduction u/s 24(a) @ 30% of NAV		(71,400)	
			1,66,600
<b>Capital gains</b>			
Full value of consideration @ 2,100 per share for 2,000 shares		42,00,000	

Less: COA being FMV taken for valuation of perquisite		(30,00,000)	
Short term capital gain u/s 111A (since shares are not held for more than 12 months and STT is paid)			12,00,000
<b>Income from other sources</b>			
Interest income of minor son: Clubbed u/s 64(1A) assuming total income of Mr. Arun, before such clubbing, is greater than this spouse. <sup>4</sup>	43,750		
Less: Exempt u/s 10(32)	(1,500)		
		42,250	
Gold chain from friend: Taxable u/s 56(2)(x) since FMV is > 50,000		70,000	
LED TV set: Not taxable u/s 56(2)(x) as it is not a specified property therein		-	
Cash from married sister of wife: Not taxable u/s 56(2)(x) since received from a relative		-	
			1,12,250
<b>Gross total income</b>			<b>21,73,850</b>
Less: Deductions under Chapter VIA			-
<b>Total income</b>			<b>21,73,850</b>

*Computation of tax liability of Mr. Arun for AY 2023-24 (as per regular provisions)*

Particulars	Rs.
Tax on STCG u/s 111A @ 15% of 12,00,000	1,80,000
Tax on balance total income of 9,73,850 at regular rates	1,07,270
	2,87,270
Add: HEC @ 4%	11,491
<b>Tax liability</b>	<b>2,98,761</b>
<b>Tax liability (rounded off)</b>	<b>2,98,760</b>

*Computation of total income of Mr. Arun for AY 2023-24 (as per section 115BAC)*

Particulars	Rs.
Total income as per regular provisions	21,73,850
Add: Exemption for HRA is blocked	1,35,000
Add: Standard deduction u/s 16(ia) is blocked	50,000
Add: Exemption u/s 10(32) is blocked	1,500
<b>Total income u/s 115BAC</b>	<b>23,60,350</b>

*Computation of tax liability of Mr. Arun for AY 2023-24 (as per section 115BAC)*

Particulars	Rs.
Tax on STCG u/s 111A @ 15% of 12,00,000	1,80,000
Tax on balance total income of 11,60,350 at 115BAC rates	1,07,070
	2,87,070
Add: HEC @ 4%	11,483
<b>Tax liability</b>	<b>2,98,553</b>
<b>Tax liability (rounded off)</b>	<b>2,98,550</b>

Tax liability of Mr. Arun u/s 115BAC is marginally lower. Thus, he can exercise the option to pay tax u/s 115BAC.

*Mistake by students: Incorrect computation in respect of sweat equity shares – Both as perquisite and as capital gains. Computation was not done u/s 115BAC even when the question required computation in a manner most beneficial to Mr. Arun.*

**B10. CA2021(JULY)** – Ashish, a resident individual, aged 43 years, provides professional services in the field of interior decoration. His Income & Expenditure A/c for the year ended 31.3.2023 is as under:

Expenditure	Rs.	Income	Rs.
To Employees' Remuneration & Benefits	13,66,000	By Consultancy Charges	58,80,000
To Office & Administrative Exp.	3,14,000	By Interest on PPF Account	60,000
To General Expenses	75,000	By Interest on Savings Bank Account	20,000

<sup>4</sup> Gross interest (i.e., net of TDS) is included in the total income. It is not clear from the question whether this is Rs. 50,000 p.a. or Rs. 43,750 p.a. Rs. 43,750 p.a. has been taken for solving the question. Alternatively, Rs. 50,000 p.a. given in the question can also be taken.

To Electricity Expenses	65,000	By Interest on NSC VIII Issue (for 3 <sup>rd</sup> year)	21,000
To Medical Expenses	80,000		
To Purchase of Furniture	48,000		
To Depreciation	90,000		
To Excess of income over exp.	39,43,000		
	<b>59,81,000</b>		<b>59,81,000</b>

The following other information relates to FY 2022-23:

- The expenses on Employees' Remuneration & Benefits includes:
  - Family planning expenditure of Rs. 20,000 incurred for the employees which was revenue in nature. The same was paid through account payee cheque.
  - Payment of salary of Rs. 25,000 p.m. to sister-in-law of Ashish, who was in-charge of the Accounts & Receivables department. However, in comparison to similar work profile, the reasonable salary at market rates is Rs. 20,000 p.m.
- Amount received by Ashish as Employees' Contribution to EPF for the month of February, 2023 – Rs. 10,000 was deposited after the due date under the relevant Act relating to EPF.
- Medical Expenses of Rs. 80,000 as appearing in the Income & Expenditure A/c was expensed for the treatment of father of Ashish. His father was 72 years old and was not covered by any health insurance policy. The said payment of Rs. 80,000 was made through account payee cheque.
- General expenses as appearing in the Income & Expenditure A/c, includes a sum of Rs. 25,000 paid to Anjaleem on 5.1.2023 as commission for securing work from new clients. This payment was made to her without deduction of tax at source.
- Written down value of the depreciable assets as on 1.4.2022 were as follows:
 

Professional books	90,000
Computers	35,000
- The new furniture as appearing in the Income & Expenditure A/c was purchased on 31.8.2022 and was put to use on the same day. The payment was made as under:
  - Rs. 18,000 paid in cash at the time of purchase of new furniture on 31.8.2022.
  - Rs. 19,000 paid by account payee cheque on 5.9.2022 as balance cost of new furniture, and
  - Rs. 11,000 paid in cash on 31.8.2022 to the transporter as freight charges for the new furniture.
- Ashish purchased a car on 2.4.2021 for Rs. 3,35,000 for personal use. However, on 30.4.2022, he brought the said car for use in his profession. The fair market value of the car as on 30.4.2022 was Rs. 2,50,000.
- Ashish made a contribution of Rs. 1,00,000 in his PPF A/c on 31.1.2023.
- The gross professional receipts of Ashish for PY 2021-22 was Rs. 52,00,000.

Compute the total income and tax liability of Ashish for AY 2023-24, assuming that he has not opted for payment of tax u/s 115BAC. Ignore provisions relating to AMT and u/s 14A relating to disallowance of expenditure incurred in relation to income not includible in total income.

■  
Computation of total income of Ashish for AY 2023-24

Particulars	Rs.	Rs.	Rs.
<b>Profits and gains of business or profession</b>			
Excess of income over expenditure		39,43,000	
<b>Add: Items debited but not deductible:</b>			
Family planning expenditure: Not deductible as deduction u/s 36(1)(ix) is allowed only to a company. It is also not deductible u/s 37(1) as general revenue expenditure since it is not wholly and exclusively for the purposes of business or profession.	20,000		
Salary to sister-in-law which is excessive or unreasonable: Not disallowed u/s 40A(2) as sister-in-law is not a relative under that section. Hence, no adjustment required.	-		
Employees' contribution to EPF: Not deductible u/s 36(1)(va) since it is deposited after the due date under the EPF law	10,000		
Medical expenses on treatment of father: Not deductible u/s 37(1) as it is not incurred for the purpose of business or profession. Deduction is claimed u/s 80D.	80,000		
Commission paid without deducting TDS: 30% is disallowed u/s 40(a)(ia) assuming Anjaleem is a resident. TDS is deductible u/s 194H [para 215 of Concepts Book] since gross receipts of Ashish exceed 50 lakh in the preceding FY and amount of commission is > 15,000.	7,500		
Depreciation as per books	90,000		

Purchase of furniture: Disallowed as it is capital expenditure. Depreciation is allowed separately.	48,000		
		2,55,500	
<b>Less: Depreciation</b>			
Books @ 40% of 90,000	36,000		
Computers @ 40% of 35,000	14,000		
Furniture @ 10% of 19,000 as put to use for $\geq$ 180 days. Payment in cash of 18,000 and 11,000 is not added to actual cost since it is made to a person in a day, exceeding 10,000, otherwise than by a specified mode.	1,900		
Car @ 15% of 3,35,000. Actual purchase price is taken to be the actual cost.	50,250		
		(1,02,150)	
<b>Less: Items credited but not taxable or taxable under another head of income</b>			
Interest on PPF: Exempt u/s 10	60,000		
Interest on savings bank account: Taxable under the head IFOS	20,000		
Interest on NSC VIII issue: Taxable under the head IFOS	21,000		
		(1,01,000)	
			39,95,350
<b>Income from other sources</b>			
Interest on savings bank account		20,000	
Interest on NSC VIII issue		21,000	
			41,000
<b>Gross total income</b>			<b>40,36,350</b>
<i>Less: Deductions under chapter VIA:</i>			
U/s 80C: Contribution to PPF of 1,00,000 + Interest on NSC of 21,000 (accrued interest is deemed to be reinvested)		1,21,000	
U/s 80D: Medical treatment on health of father (senior citizen, assuming he is a resident) as no health insurance premium has been paid for him. Deductible up to 50,000.		50,000	
U/s 80TTA: Interest on savings bank account deductible up to 10,000		10,000	
			(1,81,000)
<b>Total income</b>			<b>38,55,350</b>

## Computation of tax liability of Ashish for AY 2023-24

Particulars	Rs.
Tax on total income of 38,55,350	9,69,105
Add: HEC @ 4%	38,764
Tax liability	10,07,869
<b>Tax liability (rounded off)</b>	<b>10,07,870</b>

*Mistake by students: Family planning expenditure allowed as deduction to Ashish though it is available only to a company. Disallowance u/s 40A(2) wrongly made for payment to sister-in-law even though she is not a relative. Failure to make disallowance u/s 40(a)(ia) in respect of commission payment made without deducting TDS. Failure to provide exemption for interest on PPF.*

**B11. CA2021(JULY)** – Rohini, aged 62 years, was born and brought up in New Delhi. She got married in Russia in 1998 and settled there since then. Since her marriage, she visits India for 60 days each year during her summer break. The following are the details of her income for PY ended 31.3.2023:

#	Particulars	Rs.
1	Pension received from Russian Government	65,000
2	Long term capital gain on sale of land at New Delhi (computed)	3,00,000
3	Short term capital gain on sale of shares of Indian listed companies in respect of which STT was paid both at the time of acquisition as well as at the time of sale (computed)	60,000
4	Premium paid to Russian Life Insurance Corporation at Russia	75,000
5	Rent received (equivalent to Annual Value) in respect of house property in New Delhi	90,000

You are required to ascertain the residential status of Rohini and compute her total income and tax liability in India for AY 2023-24. Ignore provisions of section 115BAC.



■ Visit rule applies to Rohini since she is a citizen of India or person of Indian origin who comes on a visit to India during the PY and has total income (other than income from foreign sources) of not > 15 lakh in the PY. Threshold to become a resident is 182 days. Since her stay of 60 days is < 182 days, she is not a resident. She is a non-resident. Accordingly, her total income and tax liability is computed below.

*Computation of total income of Rohini for AY 2023-24*

Particulars	Rs.	Rs.
<b>Salaries</b>		
Pension received from Russian Government: Not taxable since it accrues/arises outside India and is received outside India		-
<b>Income from house property</b>		
Annual value (rent received) in respect of house property in New Delhi: Taxable in India. It is deemed to accrue/arise in India as property is situated in India.	90,000	
Less: Standard deduction u/s 24(a) of 30%	(27,000)	
		63,000
<b>Capital gains</b>		
Long term capital gain on sale of land at New Delhi (computed) - U/s 112. Taxable in India. It is deemed to accrue/arise in India as transfer is of capital asset situated in India.	3,00,000	
Short term capital gain on sale of shares of Indian listed companies in respect of which STT was paid both at the time of acquisition as well as at the time of sale (computed) – U/s 111A. Taxable in India. It is deemed to accrue/arise in India as transfer is of capital asset situated in India.	60,000	
		3,60,000
<b>Gross total income</b>		<b>4,23,000</b>
Less: Deduction u/s 80C in respect of premium paid to Russian Life Insurance Corporation at Russia (assuming it is on the life of self, spouse or child and premium is within the specified % limit of sum assured). However, deduction is not allowable from LTCG u/s 112 or STCG u/s 111A. Thus, it is restricted to income from house property only.		(63,000)
<b>Total income</b>		<b>3,60,000</b>

*Computation of tax liability of Rohini for AY 2023-24*

Particulars	Rs.
Tax on LTCG u/s 112 @ 20% of 3,00,000. Benefit of unexhausted basic exemption limit is not available to a NR.	60,000
Tax on STCG u/s 111A @ 15% of 60,000. Benefit of unexhausted basic exemption limit is not available to a NR.	9,000
	69,000
Less: Rebate u/s 87A: Not available to a non-resident	-
	69,000
Add: HEC @ 4%	2,760
<b>Tax liability</b>	<b>71,760</b>

*Mistake by students – Allowed deduction u/s 80C on LTCG u/s 112 and STCG u/s 111A.*

**B12. CA2021(JAN) (modified)** - Mr. Krishna (aged 65 years), a furniture manufacturer, reported a profit of Rs. 5,64,20,700 for the PY 2022-23, after debiting/crediting the following items:

*Debits:*

1. Rs. 20,000 paid to a Gurudwara registered u/s 80G of the Income Tax Act, in cash where no cheques are accepted.
2. Rs. 48,000 contributed to a university approved and notified u/s 35(1)(ii) to be used for scientific research.
3. Interest paid Rs. 1,67,000 on loan taken for purchase of e-vehicle on 15.5.2022 from a bank. The e-vehicle was purchased for the personal use of his wife.
4. His firm has purchased timber under a forest lease of Rs. 20,00,000 for the purpose of business.

*Credits:*

1. Income of Rs. 4,00,000 from royalty on patent registered under the Patent Act received from different resident clients. No TDS was needed to be deducted by any of these clients.
2. He received Rs. 3,00,000 from a debtor which was written off as bad in the year 2018-19. Amount due from the debtor (which was written off as bad) was Rs. 5,00,000, out of which tax officer had only allowed Rs. 3,00,000 as deduction in computing the total income of AY 2019-20.
3. He sold some furniture to his brother for Rs. 7,00,000. The fair market value of such furniture was Rs. 9,00,000.

**Other information:**

1. Depreciation in books of accounts is computed by applying the rates prescribed under the Income tax laws.
2. Mr. Krishna purchased three new cars for Rs. 24,00,000 on 1.9.2022 (for Rs. 12 lakh, Rs. 6 lakh and Rs. 6 lakh) and the same were put to use in the business on the same day. No depreciation for the same has been taken on cars in the books of account.
3. Mr. Krishna had sold a house on 30.3.2020 and deposited the long term capital gains of Rs. 25,00,000 in capital gain account scheme by the due date of filing return of income for that year. On 1.3.2023, he sold another house property, in which he resided, for Rs. 1 crore (SDV Rs. 95 lakh). He earned a long term capital gain of Rs. 50,00,000 on sale of this property. On 25.3.2023, he withdrew money out of this capital gain account and invested Rs. 1 crore on construction of one house.
4. Mr. Krishna also made the following payments during the PY 2022-23:
  - a. Lump sum premium of Rs. 30,000 paid on 30.3.2023 for the medical policy taken for self and spouse. The policy shall be effective for five years, i.e., from 30.3.2023 to 29.3.2028.
  - b. Rs. 8,000 paid in cash for preventive health check-up of self and spouse.

Compute the total income and tax payable for Mr. Krishna for AY 2023-24 in a manner which is most beneficial to him.

■ **Computation of total income of Mr. Krishna for AY 2023-24 (as per regular provisions)**

Particulars	Rs.	Rs.	Rs.
<b>Profits and gains of business or profession</b>			
Net profit as per profit and loss account		5,64,20,700	
<i>Add: Items debited but not deductible:</i>			
Donation to Gurudwara in cash: Not deductible u/s 37(1) as not an expenditure incurred for purpose of business or profession	20,000		
Interest on loan for purchase of e-vehicle: Not deductible u/s 37(1) as it is incurred for personal purpose	1,67,000		
Contribution to university approved and notified u/s 35(1)(ii): Allowed. No adjustment required.	-		
Sale of furniture to brother below FMV: No adjustment required. Section 40A(2) applies to expenditure.	-		
		1,87,000	
<i>Less: Items credited but not taxable or taxable under other heads:</i>			
Royalty on patent: Taxable under the head IFOS since Krishna is engaged in manufacturing business and not in the business of earning royalty	4,00,000		
Recovery of bad debt: Deemed business income taxable u/s 41(1) = Recovery of 3,00,000 – (Amount of debt 5,00,000 – Deduction allowed u/s 36(1)(vii) 3,00,000) = 1,00,000. Excess amount credited is to be reduced (3,00,000 – 1,00,000)	2,00,000		
		(6,00,000)	
Less: Depreciation on cars (put to use for > 180 days) @ 15% (assuming general rate is applicable) of 24 lakh. Additional depreciation is not allowed on cars.		(3,60,000)	
			5,56,47,700
<b>Capital gains</b>			
Withdrawal of 25 lakh from CGAS: Not taxable u/s 54 since it is used to acquire new asset within 3 years from 30.3.2020 (date of transfer of house).		-	
Long term capital gain on sale of another residential house	50,00,000		
Less: Exemption u/s 54 = Lower of (a) amount of capital gain (50 lakh) or (b) cost of new asset (1 crore on construction – 25 lakh CGAS deposit for the first house, i.e., 75 lakh)	(50,00,000)	-	
			Nil
<b>Income from other sources</b>			
Royalty on patent			4,00,000
<b>Gross total income</b>			<b>5,60,47,700</b>
<b>Less: Deductions u/c VIA:</b>			
<b>U/s 80D:</b>			
Lump sum premium: Deduction for each PY = 30,000 / 6 (beginning with PY 2022-23 in which amount is paid and subsequent PYs during which insurance will be in force, i.e., till PY 2027-28)	5,000		

Preventive health-check: Eligible up to 5,000	5,000	
		10,000
U/s 80EEB for interest on loan to purchase e-vehicle: Allowed up to 1,50,000 as loan is sanctioned in PY 2022-23 (i.e., within the eligible period)		1,50,000
U/s 80G for donation to Gurudwara: Not allowed for donation > 2,000 in cash		-
U/s 80RRB for royalty on patent: Up to 3,00,000		3,00,000
		(4,60,000)
<b>Total income</b>		<b>5,55,87,700</b>

*Computation of tax liability of Mr. Krishna for AY 2023-24 (as per regular provisions)*

Particulars	Rs.
Tax on total income of 5,55,87,700 (assuming he is resident and, thus, a senior citizen)	1,64,86,310
Add: SC @ 37% since total income is > 5 crore	60,99,935
	2,25,86,245
Add: HEC @ 4%	9,03,450
<b>Tax liability</b>	<b>2,34,89,695</b>

*Computation of tax liability of Mr. Krishna for AY 2023-24 (as per AMT provisions since he has claimed deduction u/s 80RRB, provided he does not opt for section 115BAC)*

Particulars	Rs.
<b>Computation of Adjusted Total Income</b>	
Total income	5,55,87,700
Add: Deduction u/s 80RRB	3,00,000
	5,58,87,700
AMT applicable? Deduction is claimed u/s 80RRB, ATI is > 20 lakh and (in case) he has not opted for 115BAC	Yes
<b>Computation of Alternate Minimum Tax</b>	
AMT @ 18.5% of ATI	1,03,39,225
Add: SC @ 37% since ATI is > 5 crore	38,25,513
	1,41,64,738
Add: HEC @ 4%	5,66,590
<b>AMT liability</b>	<b>1,47,31,328</b>
Since regular Tax is not less than AMT, Mr. Krishna will not need to pay tax under AMT provisions	

*Computation of tax liability of Mr. Krishna for AY 2023-24 (as per section 115BAC)*

Particulars	Rs.
Total income as per regular provisions	5,55,87,700
Add: Contribution to a university approved and notified u/s 35(1)(ii) is blocked	48,000
Add: Deductions u/s 80D, 80EEB, 80RRB are blocked	4,60,000
<b>Total income u/s 115BAC</b>	<b>5,60,95,700</b>
Tax on total income @ 115BAC rates	1,65,66,210
Add: SC @ 37% since total income is > 5 crore	61,29,498
	2,26,95,708
Add: HEC @ 4%	9,07,828
<b>Tax liability u/s 115BAC</b>	<b>2,36,03,536</b>

Tax liability of Mr. Krishna under regular provisions is less than that u/s 115BAC. Hence, he should not exercise the option u/s 115BAC. Tax payable is determined below.

Particulars	Rs.	Rs.
Tax liability as per regular provisions		2,34,89,695
Less: TDS/TCS:		
U/s 206C(1) for timber obtained under forest lease @ 2.5% of 20 lakh (assuming Mr. Krishna did not furnish declaration to the seller that goods are to be utilized for manufacturing and not for trading; if it is assumed that he furnished the declaration, seller would not collect TCS). Para 224 of Concepts Book.	(50,000)	

U/s 206C(1F) for purchase of motor car of value > 10 lakh: Assumed that seller is covered u/s 206C(1F). TCS @ 1% of 12 lakh. No TCS on cars of value ≤ 10 lakh. Refer para 224.	(12,000)	
U/s 194-IA on sale of house as consideration and SDV are both not < 50 lakh. TDS @ 1% of 1 crore (higher of 1 crore or 95 lakh). Refer para 217.	(1,00,000)	
		(1,62,000)
Tax payable		2,33,27,695
<b>Tax payable (rounded off)</b>		<b>2,33,27,700</b>

**B13. CA2021(JAN)** - Given below are the details provided to you by Mr. Rayan, a resident individual aged 54 years, engaged in the manufacture of specified article, in respect of his income earned during the year 2022-23:

- Net profit from business Rs. 75,21,000 (as per profit and loss account).
- On 1.4.2022, Mr. Rayan took plant and machinery on hire purchase and put that to use on the same day. Cost of the asset was Rs. 12,00,000 which was to be payable in 24 equal monthly instalments of Rs. 50,000 each. Date of payment of first instalment was 31.7.2022. It is decided between the parties that, out of the monthly payment of instalments, Rayan will pay Rs. 45,000 through account payee cheque and balance Rs. 5,000 in cash. The instalments are paid on the last day of each month.
- During the year, Mr. Rayan purchased one more plant and machinery for Rs. 55 lakh for which he took loan from a scheduled bank (Date of loan 1.4.2022 and rate of interest 11% p.a.). The asset was acquired on 1.5.2022 and put to use on 1.9.2022. Interest amount is debited to P/L A/c.
- On 1.4.2022, the production manager working in the factory of Mr. Rayan took voluntary retirement from the services. Mr. Rayan paid him Rs. 9,00,000 as compensation for his services under the voluntary retirement scheme. This amount has been debited to the profit and loss account under salary head.
- As per the agreement between Rayan and Mr. Das (Chief Executive Officer), apart from salary, Mr. Das will also be eligible for a share of profit @ 5% of net profit as per books of accounts. He was paid salary of Rs. 14,25,000 and bonus of Rs. 3,76,050 during the year, which is debited to the profit and loss account under the salary head.
- WDV (as per Income Tax Act) of different assets as on 1.4.2022:
  - Plant and machinery Rs. 9,00,000
  - Factory building Rs. 5,45,000
  - Depreciation debited to profit and loss account Rs. 17,50,000
- He received Rs. 14,850 as income tax refund out of which Rs. 4,850 is interest on refund. The entire amount is credited to profit and loss account.
- He paid Rs. 50,000 as life insurance premium taken on the life of his father who is dependent on him. The sum assured is Rs. 80,00,000 and the policy was taken on 1.4.2018.
- He also paid Rs. 45,000 as life insurance premium taken on the life of his married daughter who is not dependent on him. The sum assured is Rs. 5,00,000 and the policy was taken on 1.4.2018.
- On 1.10.2022 he withdrew Rs. 2 crores in cash from two current accounts maintained by him with SGT Bank of India. There are no other withdrawals during the year.

You are required to compute the total income of Mr. Rayan and also the tax payable by him for AY 2023-24 in a manner which is most beneficial to him.

■

*Computation of total income of Mr. Rayan for AY 2023-24 (as per regular provisions)*

Particulars	Rs.	Rs.	Rs.
<b>Profits and gains of business or profession</b>			
Net profit as per profit and loss account		75,21,000	
<i>Add: Items debited but not allowable as deduction:</i>			
Depreciation (considered separately)	17,50,000		
Interest on loan for purchase of plant and machinery till date asset is first put to use: Added to actual cost = 11% of 55 lakh for 5 months. Not deductible u/s 36(1)(iii).	2,52,083		
Bonus of 5% of net profit: Not deductible u/s 36(1)(ii) as it is payable as share of profit	3,76,050		
VRS compensation: Amortized u/s 35DDA in 5 instalments starting from the year of payment. Hence, 4/5 <sup>th</sup> of 9 lakh is added back.	7,20,000		
		30,98,133	
<i>Less: Items not taxable or taxable under other heads of income:</i>			
Income tax refund: Not taxable	10,000		
Interest on income tax refund: Taxable under the head IFOS	4,850		

	(14,850)	
Less: Depreciation (see Note)	(26,22,729)	
		79,81,554
<b>Income from other sources:</b>		
Interest on income tax refund		4,850
<b>Gross total income</b>		<b>79,86,404</b>
Less: Deduction u/s 80C:		
• Life insurance premium on life of father: Not eligible	-	
• Life insurance premium on life of daughter: Up to 10% of sum assured	45,000	
		(45,000)
Total income		79,41,404
<b>Total income (rounded off)</b>		<b>79,41,400</b>

Note:

Particulars	Building	P&M
Opening WDV	5,45,000	9,00,000
<i>Add: Actual cost of assets acquired during the PY:</i>		
P&M acquired on 1.4.2022 on hire purchase (put to use for $\geq 180$ days): As per Circular 9/1943, in case of hire purchase, depreciation is allowed to lessee on cash value (sale price as on date on agreement) and hire charges are deductible over the term of agreement [para 93.1-2 of Concepts Book]. In absence of information regarding hire charges component comprised in the instalments, the entire cost of asset of 12 lakh is taken to be the initial value or capital outlay entitled to depreciation. Since cash payment in a day is not $> 10,000$ , no disallowance is made on this count.		12,00,000
P&M acquired on 1.5.2022 (put to use for $\geq 180$ days): 55,00,000 + Interest on loan till date it is first put to use 2,52,083 (see working in the above Table)		57,52,083
WDV of Block (as on 31.3.2023) for depreciation	5,45,000	78,52,083
Normal depreciation = 10% on building and 15% on P&M	54,500	11,77,812
Additional depreciation on P&M (as Mr. Rayan is engaged in manufacture) = 20% of actual cost of new P&M acquired and installed during the year = 20% of 69,52,083	-	13,90,417
Total = 26,22,729	54,500	25,68,229

*Computation of total income of Mr. Rayan for AY 2023-24 (under section 115BAC)*

Particulars	Rs.
Total income as per regular provisions	79,41,404
Add: Additional depreciation: Blocked	13,90,417
Add: Deductions u/s 80C: Blocked	45,000
Total income u/s 115BAC	93,76,821
Total income u/s 115BAC (rounded off)	93,76,820

*Computation of tax liability of Mr. Rayan for AY 2023-24*

Particulars	Regular rates	115BAC rates
Total income	79,41,400	93,76,820
Tax on total income at regular rates or 115BAC rates, as the case may be	21,94,920	25,50,546
Less: Rebate u/s 87A (N/A as total income is $> 5$ lakh)	-	-
	21,94,920	25,50,546
Add: Surcharge @ 10% as total income is $> 50$ lakh and up to 1 crore	2,19,492	2,55,055
	24,14,412	28,05,610
Add: HEC @ 4%	96,576	1,12,224
Tax liability	25,10,988	29,17,825
Less: TDS u/s 194N @ 2% of 2 crore. It is assumed that Mr. Rayan has filed return for all of the 3 immediately preceding PYs, for which time limit to file return u/s 139(1) has expired, immediately preceding the PY 2022-23 and, hence, rate of 2% applies. Para 218 of Concepts Book.	(4,00,000)	(4,00,000)

Tax payable	21,10,988	25,17,825
<b>Tax payable (rounded off)</b>	<b>21,10,990</b>	<b>25,17,830</b>
Mr. Rayan should not opt for section 115BAC (he should also note the restrictive conditions of opting in/out of section 115BAC since he has income from business/profession). Tax payable will be Rs. 21,10,990.		

**B14. CA2021(JAN)** - Mr. Xavier, an Indian resident individual, set up a unit in SEZ in the FY 2018-19 for production of mobile phones. The unit fulfills all the conditions of section 10AA. During the FY 2021-22, he has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of section 35AD.

Capital expenditure in respect of warehouse amounted to Rs. 93 lakh (including cost of land Rs. 13 lakh). The warehouse became operational w.e.f. 1.4.2022 and the expenditure of Rs. 93 lakh was capitalized in the books on that date.

Further details relevant for FY 2022-23 are as follows:

Particulars	Rs.
Profit from operation of warehousing facility before claiming deduction u/s 35AD	1,10,00,000
Net profit of SEZ (mobile phone) Unit	50,00,000
Export sales of SEZ (mobile phone) Unit	90,00,000
Domestic sales of SEZ (mobile phone) Unit	60,00,000

Compute income tax (including AMT u/s 115JC) payable by Mr. Xavier for AY 2023-24. Assume that Mr. Xavier does not want to opt for section 115BAC.

■

Computation of total income and tax liability of Mr. Xavier for AY 2023-24 (as per regular provisions)

Particulars	Rs.	Rs.
<b>Profits and gains of business or profession</b>		
Profit from SEZ unit		50,00,000
Profit from warehousing facility	1,10,00,000	
Less: Deduction u/s 35AD = 100% of capital expenditure incurred prior to commencement of operations since it is capitalized in books on that date = 93 lakh – Exp on land 13 lakh	(80,00,000)	
		30,00,000
Total income before deduction u/s 10AA		80,00,000
Less: Deduction u/s 10AA = Profits of unit 50 lakh × (90 lakh export sales of Unit / 150 lakh total sales of business carried on by the Unit). 100% deduction is permissible being 5 <sup>th</sup> year from FY 2018-19.		(30,00,000)
<b>Total income</b>		<b>50,00,000</b>
Tax on total income		13,12,500
Less: Rebate u/s 87A (N/A as total income is > 5 lakh)		-
		13,12,500
Add: Surcharge Nil as total income is not > 50 lakh		-
		13,12,500
Add: HEC @ 4%		52,500
<b>Tax liability</b>		<b>13,65,000</b>

Computation of tax liability of Mr. Xavier for AY 2023-24 (as per AMT provisions)

Particulars	Rs.
<b>Computation of Adjusted Total Income</b>	
Total income	50,00,000
Add: Deduction u/s 10AA	30,00,000
Add: Deduction u/s 35AD	80,00,000
Less: Depreciation allowable u/s 32 (@ 10%), as if no deduction u/s 35AD was allowed, in respect of building on which deduction u/s 35AD is claimed = 10% of 80 lakh, assuming entire capital expenditure is on building	(8,00,000)
	1,52,00,000
AMT applicable? Deduction is claimed u/s 10AA/35AD, ATI is > 20 lakh and he has not opted for 115BAC	Yes
<b>Computation of Alternate Minimum Tax</b>	
AMT @ 18.5% of ATI	28,12,000
Add: SC @ 15% since ATI is > 1 crore and up to 2 crore	4,21,800
	32,33,800

Add: HEC @ 4%	1,29,352
AMT liability	33,63,152
<b>AMT liability (rounded off)</b>	<b>33,63,150</b>
Is Regular Tax < AMT?	Yes
Since regular tax is < AMT, ATI is deemed to be the total income and AMT is the tax liability.	

*AMT credit to be carried forward u/s 115JEE*

Particulars	Rs.
Tax liability u/s 115JC	33,63,150
Less: Tax liability under regular provisions	(13,65,000)
	<b>19,98,150</b>

**B15. CA2021(JAN)** - Rajesh was employed in Axis Ltd., Mumbai. He received a salary of Rs. 45,000 p.m. from 1.4.2022 to 20.9.2022. He resigned and left for Dubai for the first time on 28.9.2022 and got monthly salary of rupee equivalent of Rs. 90,000 from 1.10.2022 to 31.3.2023. His salary for October to December was credited in his Mumbai bank account directly and the salary for January to March 2023 was credited in his Dubai bank account.

The cost of his air tickets to Dubai costing Rs. 1,50,000 was funded by her sister staying in London. The cost of his initial stay in Dubai costing Rs. 40,000 was funded by one of his friends staying in Delhi.

He further received interest of Rs. 10,500 on his fixed deposits and Rs. 7,500 on his savings a/c with his Mumbai bank. He also paid LIC premiums of Rs. 15,000 for self, Rs. 10,000 for spouse and Rs. 25,000 for dependent mother aged 71 years.

Compute taxable income of Mr. Rajesh for AY 2023-24 (under regular provisions as well as u/s 115BAC).

■ Citizen of India, who leaves India during the PY for purpose of employment outside India is a resident if he is in India for  $\geq 182$  days in the PY. Since Rajesh was in India for 181 days (1.4.2022 to 28.9.2022), he is a non-resident for PY 2022-23.

*Computation of taxable income of Rajesh for AY 2023-24 (under regular provisions)*

Particulars	Rs.	Rs.
<b>Income from salaries</b>		
For the period 1.4.2022 to 20.9.2022 = $(45,000 \times 5 \text{ months}) + (45,000 \times 20/30 \text{ days})$ : Taxable as received in India and accrued/arose in India (since services are rendered in India).	2,55,000	
For the period October to December: Taxable as received in India	2,70,000	
For the period January to March: Not taxable as received outside India and is not deemed to accrue/arise in India u/s 9(1)(ii) (since services are rendered outside India)	-	
Gross salary income	5,25,000	
Less: Standard deduction u/s 16(ia)	(50,000)	
		4,75,000
<b>Income from other sources</b>		
Cost of air tickets funded by sister: Not taxable u/s 56(2)(x), as sister is a relative	-	
Cost of initial stay in Dubai funded by friend: Not taxable u/s 56(2)(x), as amount is not > 50,000	-	
Interest on fixed deposits with Mumbai bank	10,500	
Interest on savings a/c with Mumbai bank	7,500	
		18,000
<b>Gross total income</b>		<b>4,93,000</b>
Less: Deductions u/c VIA:		
U/s 80C for LIC premium for self and spouse (assuming it is within the permissible limit of sum assured); not eligible for mother.	25,000	
U/s 80TTA on interest on savings account up to limit of Rs. 10,000 (since Rajesh is not a senior citizen)	7,500	
		(32,500)
<b>Total income</b>		<b>4,60,500</b>

## Computation of total income of Rajesh for AY 2023-24 (under section 115BAC)

Particulars	Rs.
Total income as per regular provisions	4,60,500
Add: Standard deduction u/s 16(ia): Blocked	50,000
Add: Deduction u/s 80C and 80TTA: Blocked	32,500
<b>Total income u/s 115BAC</b>	<b>5,43,000</b>

**B16. CA2020(NOV)** – From the following particulars furnished by Mr. Ganesh, aged 58 years, a resident Indian for the PY ended 31.3.2023, you are requested to compute his total income and tax liability under normal as well as special provisions (AMT), if any, applicable to him for AY 2023-24.

- He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of Rs. 2,28,000. He has paid municipal taxes of Rs. 60,000 for the current financial year.
- He owns an industrial undertaking established in a SEZ and which had commenced operation during the FY 2019-20. Total turnover of the undertaking was Rs. 200 lakh, which includes Rs. 140 lakh from export turnover. This industrial undertaking fulfills all the conditions of section 10AA. Profit from this industry is Rs. 25 lakh.
- He received royalty of Rs. 2,48,000 from abroad for a book authored by him of the nature of artistic. The rate of royalty is 16% of value of books. The amount remitted to India till 30.9.2023 is Rs. 2,30,000.
- Received Rs. 40,000 as interest on saving bank deposits.
- Received Rs. 47,000 as share of profit from an AOP where all the members are individual and which had paid tax by normal rates of income tax.
- He also sold his vacant land on 10.11.2022 for Rs. 10 lakh. The stamp duty value of land at the time of transfer was Rs. 15.12 lakh. The FMV of the land as on 1.4.2001 was Rs. 4 lakh. This land was acquired by him on 5.8.1996 for Rs. 1.80 lakh. He had incurred registration expenses of Rs. 10,000 at that time.
- He paid the following amounts, out of his taxable income:
  - Insurance premium of Rs. 39,000 paid on life insurance policy of son, who is not dependent on him.
  - Insurance premium of Rs. 48,000 on policy of his dependent father.
  - Tuition fee of Rs. 42,000 for his three children to a school. The fees being Rs. 14,000 p.a. per child.

## Computation of total income of Mr. Ganesh for AY 2023-24 (as per regular provisions)

Particulars	Rs.	Rs.	Rs.
<b>Income from house property</b>			
<i>Let out portion (assuming ground and first floors are of equal area):</i>			
• Gross annual value (rent is taken in absence of any further information)	2,28,000		
• Less: Municipal taxes paid (50% of Rs. 60,000)	(30,000)		
• Net annual value	1,98,000		
• Less: Standard deduction u/s 24(a) @ 30% of NAV	(59,400)	1,38,600	
<i>Self occupied portion:</i>			
• Income from house property from self occupied portion: Annual value is Nil and no deduction is allowed for municipal taxes paid.		Nil	
			1,38,600
<b>Profits and gains from business or profession</b>			
Profit of business of SEZ unit		25,00,000	
Share of profit from AOP <sup>5</sup>		47,000	
			25,47,000
<b>Capital gains</b>			
Full value of consideration u/s 50C = SDV as it is > 110% of consideration		15,12,000	
Indexed cost of acquisition = COA × (CII of 2022-23/CII of 2001-02) = Rs. 4,00,000 × (331/100). COA = Higher of Rs. 1,90,000 (1,80,000 + 10,000) or Rs. 4,00,000 FMV as on 1.4.2001.		(13,24,000)	

<sup>5</sup> Since taxable income of Ganesh (excluding share from AOP) is more than the basic exemption limit, AOP will be taxable at maximum marginal rate by virtue of section 167B and in such case, share of profit will not be included in the total income of Ganesh by virtue of section 86, even if the AOP may have actually paid tax at the normal rates though it is taxable at maximum marginal rate. An alternative view can also be taken that since the AOP has paid tax at normal rates, share of profit will be included in the total income of Ganesh by virtue of section 86. The latter view has been adopted in the solution. Please note that taxation of AOP is not in the CA Intermediate syllabus.



Long term capital gain (since land is held for more than 24 months)		1,88,000
<b>Income from other sources</b>		
Royalty received	2,48,000	
Interest on saving bank deposits	40,000	
		2,88,000
<b>Gross total income</b>		<b>31,61,600</b>
<i>Less: Deduction u/s VIA:</i>		
U/s 80C: Life insurance premium for son (not eligible for father) 39,000 + Tuition fee up to 2 children Rs. 28,000	(67,000)	
U/s 80QQB: Gross royalty up to 15% (Rs. 2,32,500); gross royalty repatriated till 30.9.2023 (Rs. 2,30,000). Lower of both is deductible up to 3 lakh.	(2,30,000)	
U/s 80TTA: On saving bank interest up to Rs. 10,000	(10,000)	
		(3,07,000)
		28,54,600
<i>Less: Deduction u/s 10AA: Since SEZ undertaking commenced operations during FY 2019-20, deduction for AY 2023-24 (being 4<sup>th</sup> year of operations) = 100% of profits derived from export = Profit of Unit × (Export turnover of unit / Total turnover of unit) = 25 lakh × (140 lakh / 200 lakh)</i>		(17,50,000)
<b>Total income</b>		<b>11,04,600</b>

*Computation of tax liability of Mr. Ganesh for AY 2023-24 (as per regular provisions)*

Particulars	Rs.
Tax on LTCG of 1,88,000 @ 20%	37,600
Tax on balance total income of 9,16,600 @ regular rates	95,820
	1,33,420
Add: HEC @ 4%	5,337
Tax liability	1,38,757
<b>Tax liability (rounded off)</b>	<b>1,38,760</b>

*Computation of tax liability of Mr. Ganesh for AY 2023-24 (as per AMT provisions)*

Particulars	Rs.
<b>Computation of Adjusted Total Income</b>	
Total income	11,04,600
Add: Deduction u/s 10AA	17,50,000
Add: Deduction u/s 80QQB	2,30,000
	30,84,600
AMT applicable? Deduction is claimed u/s 10AA/80QQB, ATI is > 20 lakh and (in case) he has not opted for 115BAC	Yes
<b>Computation of Alternate Minimum Tax</b>	
AMT @ 18.5% of ATI	5,70,651
Add: HEC @ 4%	22,826
AMT liability	5,93,477
Is Regular Tax < AMT?	Yes
<b>Tax liability under AMT provisions (rounded off)</b>	<b>5,93,480</b>

*Computation of tax liability of Mr. Ganesh for AY 2023-24 (as per section 115BAC)*

Particulars	Rs.
Total income as per regular provisions	11,04,600
Add: Deduction u/s 10AA: Blocked	17,50,000
Add: Deduction u/s 80C, 80QQB, 80TTA: Blocked	3,07,000
Total income u/s 115BAC	31,61,600
Tax on LTCG of 1,88,000 @ 20%	37,600
Tax on balance total income of 29,73,600 @ 115BAC rates	6,29,580

	6,67,180
Add: HEC @ 4%	26,687
Tax liability	6,93,867
<b>Tax liability (rounded off)</b>	<b>6,93,870</b>
Since tax liability u/s 115BAC is more than AMT tax liability, Mr. Ganesh should not opt for section 115BAC. He will pay tax under AMT provisions and carry forward the AMT credit for being set off in a subsequent year against regular tax liability.	

**B17. CA2020(NOV)** – Mr. Jayaprakash, aged about 40 years, is an authorized wholesale distributor of Fertilizers Ltd. dealing with fertilizers and other agricultural products. Given below is his Trading and Profit & Loss account for the PY 2022-23.

Particulars	Rs.	Particulars	Rs.
To Opening stock	24,21,000	By Sales	3,12,50,100
To Purchases	2,28,00,500	By Closing stock	26,00,100
To Direct expenses	4,12,040		
To Freight inward	2,92,000		
To Gross profit c/d	79,24,660		
	3,38,50,200		3,38,50,200
To Salaries and wages	17,12,000	By Gross profit b/d	79,24,660
To General expenses	3,65,000	By Dividend from Indian companies (gross of TDS)	17,20,000
To Rates and taxes	2,20,000	By Interest received on FDs (net of TDS)	1,08,000
To Interest paid on late filing of GST	2,845	By Rent from Mr. Z (gross of TDS)	7,20,000
To Income tax paid for FY 2021-22	3,45,000	By Income tax refund	18,000
To Interest paid to NBFC	1,20,000		
To Depreciation	1,82,000		
To Net profit	75,43,815		
	<b>1,04,90,660</b>		<b>1,04,90,660</b>

The following additional information is provided by him:

- Closing stock of previous year was undervalued by Rs. 45,000.
- Rates and taxes include Rs. 1,000 paid towards late filing of his IT return for AY 2022-23 u/s 234F.
- Salaries include Rs. 25,000 paid on single day by way of cash to his accountant.
- Interest paid on loan of Rs. 10,00,000 taken from a NBFC. Out of the loan amount, Rs. 2 lakh was used for personal purpose and the balance was used for business purpose. No TDS was deducted while repaying the loan.
- An amount of Rs. 45,000 was paid by cheque during the year towards health insurance policy covering himself, his spouse and his children.
- General expenses include advertisement expense of Rs. 20,000 paid by cheque towards an advertisement in a souvenir published by local political party.
- Income tax refund includes Rs. 2,000 towards interest.
- Depreciation charged is as per Income Tax Rules. However, it does not include depreciation on a new Maruti Van purchased on 23.9.2022 for his business use. The cost of the vehicle is Rs. 2,10,000.
- Advance tax paid during the year is Rs. 15 lakh.
- TDS has been deducted on interest received on FDs as per Income Tax Act.
- Turnover for the year ending 31.3.2022 was Rs. 3.08 crore.

You are required to compute the tax payable by him for AY 2023-24 in a manner which is most beneficial to him.

■ Computation of total income of Mr. Jayaprakash for AY 2023-24 (under regular provisions)

Particulars	Rs.	Rs.	Rs.
<b>Income from house property</b>			
GAV/NAV (rent from Mr. Z is taken in absence of any other information; assuming rent is for house property and, thus, taxable under the head 'IHP')		7,20,000	
Less: Standard deduction u/s 24(a) @ 30%		(2,16,000)	
			5,04,000
<b>Profits and gains of business or profession</b>			
Net profit as per Trading and Profit & Loss A/c		75,43,815	
Add: Expenses debited but not allowed as deduction			

Income tax paid: Disallowed u/s 40(a)(ii)	3,45,000		
Fee u/s 234F for late filing of return: Disallowed u/s 40(a)(ii)	1,000		
Salary paid in cash exceeding Rs. 10,000: Disallowed u/s 40A(3)	25,000		
Interest paid to NBFC on loan for personal purpose = Rs. 1,20,000 × (2 lakh / 10 lakh)	24,000		
Interest paid to NBFC without deduction of TDS u/s 194A: Disallowed u/s 40(a)(ia) @ 30% of Rs. 96,000 (8/10 <sup>th</sup> for business purposes) = Rs. 28,800. TDS is to be deducted since turnover for preceding FY is > 1 crore. It is assumed that interest is paid without deducting TDS though language of question is not clear.	28,800		
Advertisement in souvenir of political party: Disallowed u/s 37(2B)	20,000		
Interest paid on late filing of GST: Compensatory interest is allowed; it is not for infraction of law. No adjustment required as it is already debited.	-		
		4,43,800	
Add: Undervaluation of closing stock (assuming 'previous year' mentioned in the question is the current previous year 2022-23 and not the preceding year) <sup>6</sup>		45,000	
<i>Less: Income credited but not taxable or taxable under other head</i>			
Dividend from Indian companies (taxable under the head IFOS)	17,20,000		
Interest received on FDs (taxable under the head IFOS)	1,08,000		
Rent received (taxable under the head IHP)	7,20,000		
Income tax refund: Not taxable	18,000		
		(25,66,000)	
Less: Depreciation on Maruti Van @ 15% of Rs. 2,10,000 assuming it is put to use for ≥ 180 days during the year		(31,500)	
			54,35,115
<b>Income from other sources</b>			
Dividend (gross of TDS)		17,20,000	
Interest received on FDs: Gross interest = Rs. 1,08,000 × (100/10) since TDS is deducted @ 10% u/s 194A		1,20,000	
Interest on income tax refund		2,000	
			18,42,000
<b>Gross total income</b>			<b>77,81,115</b>
Less: Deduction u/s 80D for health insurance premium: Allowed up to Rs. 25,000			(25,000)
<b>Total income</b>			<b>77,56,115</b>
<b>Total income (rounded off)</b>			<b>77,56,120</b>

*Computation of total income of Mr. Jayaprakash for AY 2023-24 (under section 115BAC)*

Particulars	Rs.
Total income as per regular provisions	77,56,115
Add: Deductions u/s 80D: Blocked	25,000
Total income u/s 115BAC	77,81,115
Total income u/s 115BAC (rounded off)	77,81,120

*Computation of tax payable by Mr. Jayaprakash for AY 2023-24*

Particulars	Regular rates	115BAC rates
Total income	77,56,120	77,81,120
Tax on total income at regular rates or 115BAC rates, as the case may be	21,39,336	20,71,836
Less: Rebate u/s 87A (N/A as total income is > 5 lakh)	-	-
	21,39,336	20,71,836
Add: Surcharge @ 10% since total income is > Rs. 50 lakh and up to Rs. 1 crore	2,13,934	2,07,184
	23,53,270	22,79,020
Add: HEC @ 4%	94,131	91,161
Tax liability	24,47,401	23,70,181

<sup>6</sup> Alternatively, if previous year is taken as the earlier previous year (denoting opening stock of current previous year), it will be reduced.

Less: TDS on dividend @ 10% u/s 194	(1,72,000)	(1,72,000)
Less: TDS on FD interest @ 10% u/s 194A	(12,000)	(12,000)
Less: TDS on rent from Mr. Z: Assuming Mr. Z is not covered u/s 194-I and, thus, it is deducted u/s 194-IB @ 5% since monthly rent of Rs. 60,000 is > Rs. 50,000	(36,000)	(36,000)
Less: Advance tax	(15,00,000)	(15,00,000)
Tax payable	7,27,401	6,50,181
<b>Tax payable (rounded off)</b>	<b>7,27,400</b>	<b>6,50,180</b>
Mr. Jayaprakash can opt for section 115BAC since his tax liability will be lower than regular tax liability (but he should also note the restrictive conditions of opting in/out of section 115BAC since he has income from business/profession). Tax payable = 6,50,180.		

**B18. CA2019(NOV)** – Mrs. Mitul, a resident individual, aged 63 years, is a qualified medical practitioner. She runs her own clinic. Income & Expenditure A/c of Mrs. Mitul for the year ending 31.3.2023 is as under:

Expenditure	Rs.	Income	Rs.
To Salary to staff	1,20,000	By Consultation fees	12,00,000
To Administrative expenses	2,90,000	By Salary received from True Care Hospitals (P) Ltd	1,80,000
To Conveyance expenses	24,000	By Rental income from house property	78,000
To Power & Fuel	24,000	By Dividend from foreign companies	10,000
To Interest on housing loan	1,00,000		
To Interest on education loan for son	26,000		
To Amount paid to scientific research association approved and notified u/s 35	25,000		
To Net profit	8,59,000		
	<b>14,68,000</b>		<b>14,68,000</b>

Explanatory information:

She is working part time with True Care Hospitals (P) Ltd. Her salary details are as under:

- Basic pay Rs. 13,000 pm
- Transport allowance Rs. 2,000 pm
- Total Rs. 15,000 pm

Further, during PY 2022-23, her son had undergone a medical treatment in this hospital free of cost. The hospital would have charged a sum of Rs. 60,000 for a similar treatment to unrelated patients.

She owns a residential house. Ground floor of the house is self occupied by her while first floor has been rented out since 1.10.2022. The reconstruction of the house was started on 1.4.2022 and was completed on 30.9.2022. The monthly rent is Rs. 10,000. The tenant also pays Rs. 3,000 p.m. as power back up charges. She took a housing loan of Rs. 12 lakhs on 1.4.2022. Interest on housing loan for the period 1.4.2022 to 30.9.2022 was Rs. 60,000 and for the period 1.10.2022 to 31.3.2023 was Rs. 40,000. During the year, she also paid municipal taxes for FY 2021-22 Rs. 5,000 and for FY 2022-23 Rs. 5,000.

Other information:

1. Conveyance expenses include Rs. 12,000 incurred for conveyance from house to True Care Hospitals (P) Ltd. and vice versa in relation to her employment.
2. Power & fuel expenses include Rs. 6,000 incurred for generator fuel for providing power back to the tenant.
3. Administrative expenses include Rs. 10,000 paid as municipal taxes for her house.
4. Clinic equipment details are: Opening WDV of clinic equipment as on 1.4.2022 was Rs. 1,00,000 and fresh purchase made on 28.8.2022 is Rs. 25,000 which was paid in cash.
5. She also paid tuition fee of Rs. 40,000 for her grand daughter, which has been debited to her Capital A/c.
6. She availed a loan of Rs. 8,00,000 from bank for higher education of her son. She repaid principal of Rs. 50,000 and interest of Rs. 26,000 during PY 2022-23.

Compute total income and most beneficial net tax liability for AY 2023-24.

Computation of total income of Mrs. Mitul for AY 2023-24 (under regular provisions)

Particulars	Rs.	Rs.	Rs.
<b>Income from salaries:</b>			
Basic pay: Rs. 13,000 × 12 months		1,56,000	
Transport allowance: Rs. 2,000 × 12 months; fully taxable		24,000	
Medical treatment of son in employer's hospital is exempt u/s 17(2), proviso		-	

Gross salary		1,80,000	
Less: Standard deduction u/s 16(ia)		(50,000)	1,30,000
<b>Income from house property:</b>			
<i>Let out portion (first floor): Assumed that both floors are of equal area</i>			
Gross annual value: Annual rent is taken in absence of information on expected rent: Rs. 10,000 × 6 months		60,000	
Less: Municipal taxes actually paid during the PY = Rs. 10,000/2		(5,000)	
Net annual value		55,000	
Less: Deductions u/s 24:			
Standard deduction @ 30% of NAV	16,500		
Interest on housing loan for reconstruction: (Rs. 60,000 + Rs. 40,000)/2	50,000	(66,500)	
		(11,500)	
<i>Self occupied portion (ground floor)</i>			
Annual value	Nil		
Less: Deduction u/s 24: Interest on loan taken for reconstruction: (Rs. 60,000 + Rs. 40,000)/2, i.e., Rs. 50,000, but limited to Rs. 30,000	(30,000)	(30,000)	
Loss from house property: This is set off against income from salary u/s 71 (alternatively, it can also be set off against business income and/or income from other sources)			(41,500)
			88,500
<b>Profits and gains of business or profession:</b>			
Net profit as per Income & Expenditure Account		8,59,000	
<i>Less: Items covered under other heads of income:</i>			
Salary received from True Care Hospitals (P) Ltd: Considered under the head Salaries	1,80,000		
Rent from house property: Considered under the head IHP and IFOS	78,000		
Dividend from foreign companies: Considered under the head IFOS	10,000	(2,68,000)	
		5,91,000	
<i>Less: Expenditure deductible:</i>			
Depreciation on clinic equipment: WDV for depreciation = Opening WDV Rs. 1,00,000 + Actual cost of asset acquired NIL (as it is paid in cash > 10,000). Depreciation @ 15% of general rate.	15,000	(15,000)	
		5,76,000	
<i>Add: Items debited but not allowed as deduction:</i>			
Interest on housing loan for residential house (not business expense)	1,00,000		
Interest on education loan for son (not business expense)	26,000		
Conveyance expense in relation to employment (not business expense)	12,000		
Power & fuel incurred for tenant (not business expense)	6,000		
Municipal taxes paid for residential house (not business expense)	10,000	1,54,000	
Mrs. Mitul is eligible for section 44ADA under which her presumptive business income would be 50% of gross receipts of 12 lakh, i.e., Rs. 6 lakh and no deduction of any expenditure will be allowed. Since she has maintained books of account, she can claim the higher sum of Rs. 7,30,000 as business income. <sup>7</sup>		7,30,000	7,30,000
<b>Income from other sources:</b>			
Power back up charges from tenant @ Rs. 3,000 pm for 6 months (in case of letting of building along with services, rent for building is taxable under the head IHP and charges of services are taxable under the head IFOS)	18,000		
Less: Expenses incurred for generator fuel	(6,000)	12,000	
Dividend from foreign companies (assuming no tax is deducted at source)		10,000	
			22,000
<b>Gross total income</b>			<b>8,40,500</b>
Less: Deduction under Chapter VIA:			
U/s 80C: Tuition fee paid for grand-daughter: Not eligible			-

<sup>7</sup> Alternatively, she can claim the sum of Rs. 6 lakh as presumptive business income.

U/s 80E: Interest on loan taken for higher education of son (principal repayment is not deductible)		26,000	
U/s 80EEA: Not available since housing loan is not taken for acquisition of house		-	(26,000)
<b>Total income</b>			<b>8,14,500</b>

*Computation of total income of Mrs. Mitul for AY 2023-24 (under section 115BAC)*

Particulars	Rs.
Total income as per regular provisions	8,14,500
Add: Allowance and deductions blocked u/s 115BAC:	
Standard deduction u/s 16(ia)	50,000
Loss from house property: Interest u/s 24(b) for self occupied portion is blocked u/s 115BAC; inter-head set off loss from let out portion is also blocked but this loss can be carried forward to AY 2024-25.	41,500
Payment to scientific research association u/s 35	25,000
Deduction u/s 80E	26,000
<b>Total income u/s 115BAC</b>	<b>9,57,000</b>

*Computation of tax liability of Mrs. Mitul for AY 2023-24*

Particulars	Regular rates	115BAC rates
Total income	8,14,500	9,57,000
Tax on total income as per regular rates or 115BAC rates, as the case may be	72,900	68,550
Less: Rebate u/s 87A (N/A as total income is > 5 lakh)	-	-
	72,900	68,550
Add: Surcharge (N/A as total income is not > 50 lakh)	-	-
	72,900	68,550
Add: HEC @ 4%	2,916	2,742
Tax liability	75,816	71,292
<b>Tax liability (rounded off)</b>	<b>75,820</b>	<b>71,290</b>

Mrs. Mitul can opt for section 115BAC (however, she should note the restrictive conditions of opting in/out of section 115BAC since she has income from business/profession). Tax liability will be Rs. 71,290.

*Mistake by students – Treating power back up charges under the head IHP instead of IFOS. In some cases, not even including this income in the computation.*

**B19. CA2019(NOV) (modified) – Kanchan, a resident individual aged 61 years, provides the following information for FY 2022-23:**

1. She is a partner in SAR & Associates and received the following amounts from the firm:

Share of profit from the firm	Rs. 31,100
Interest on capital @ 15% p.a.	Rs. 2,85,000
Rent for an office	Rs. 1,44,000
Salary as working partner (fully allowed in the hands of firm)	Rs. 1,20,000

2. She worked as a sales manager in her friend's showroom for 2 months at a salary of Rs. 30,000 per month.

3. She started her own boutique on 1.8.2022. The net profit as per P&L Account for the period of initial 8 months is Rs. 3,50,000. The following items are debited to P&L Account:

Advance income tax paid	Rs. 90,000
Personal drawings	Rs. 80,000

The following items are credited to P&L Account:

Interest on savings bank account with PNB	Rs. 27,000
Interest on savings account with post office	Rs. 11,000
Interest on fixed deposits with Canara Bank	Rs. 25,000

4. She owned a house property which was sold in June 2022 for Rs. 80 lakh (SDV Rs. 79 lakh). This property was purchased for Rs. 31.5 lakh in January 2005. She received Rs. 90,000 by way of arrear rent in respect of the said property in March 2023.

5. She made the following investments:

Life insurance premium on a policy in the name of her husband Rs. 87,000. The policy was taken on 1.7.2014 and the sum assured being Rs. 8,00,000.

Health insurance premium on a policy covering her mother aged 83. She is not dependent on Kanchan. Premium paid by cheque Rs. 54,000.

Compute the total income and tax liability for AY 2023-24 and advise whether Kanchan should opt for section 115BAC.

■

Computation of total income of Kanchan for AY 2023-24 (under regular provisions)

Particulars	Rs.	Rs.	Rs.
<b>Income from salaries:</b>			
Salary for 2 months @ Rs. 30,000 p.m.		60,000	
Less: Standard deduction u/s 16(ia)		(50,000)	10,000
<b>Income from house property:</b>			
Office: Annual value (in absence of any other information, rent of office is taken as annual value)		1,44,000	
Less: Standard deduction @ 30% u/s 24(a)		(43,200)	
		1,00,800	
Arrears of rent: Taxable u/s 25A even if she is no longer the owner of property; assuming it was not taxed earlier on due basis	90,000		
Less: Standard deduction @ 30% u/s 25A	(27,000)	63,000	1,63,800
<b>Profits and gains of business or profession:</b>			
<i>Income from firm:</i>			
Share of profit from firm: Exempt u/s 10(2A)		-	
Interest on capital: Deductible in the hands of the firm up to 12% and, hence, taxable for Kanchan: Rs. 2,85,000 × (12/15)	2,28,000		
Salary as working partner: Taxable since fully allowed in the hands of firm	1,20,000	3,48,000	
<i>Income from boutique business:</i>			
Net profit as per P&L Account	3,50,000		
Add: Expenses debited but not allowed:			
• Advance income tax paid: Disallowed u/s 40(a)(ii)	90,000		
• Personal drawings: Personal expenses not allowed u/s 37(1)	80,000		
	5,20,000		
Less: Income chargeable under the head IFOS but credited to P&L account:			
• Interest on savings bank account with PNB	(27,000)		
• Interest on savings account with post office	(11,000)		
• Interest on fixed deposits with Canara Bank	(25,000)	4,57,000	8,05,000
<b>Capital gains:</b>			
Full value of consideration on sale of house		80,00,000	
Less: Indexed cost of acquisition = COA × (CII of 2022-23/ CII of 2004-05) = 31.5 lakh × (331/113)		(92,26,991)	
Long term capital loss: Carried forward u/s 74 to the subsequent AY		(12,26,991)	
<b>Income from other sources:</b>			
Interest on savings bank account with PNB		27,000	
Interest on savings account with post office	11,000		
Less: Exempt u/s 10(15)	(3,500)	7,500	
Interest on fixed deposits with Canara Bank		25,000	59,500
<b>Gross total income</b>			<b>10,38,300</b>
Less: Deductions under Chapter VIA:			
U/s 80C: Life insurance premium: up to 10% of Rs. 8 lakh since policy is taken after 31.3.2012		80,000	
U/s 80D: Health insurance premium for mother aged 83 (even if not dependent): Allowed up to Rs. 50,000 (assuming she is resident and, thus, a senior citizen)		50,000	
U/s 80TTB: Interest of Rs. 59,500 up to the limit of Rs. 50,000		50,000	(1,80,000)
<b>Total income</b>			<b>8,58,300</b>

## Computation of total income of Kanchan for AY 2023-24 (under section 115BAC)

Particulars	Rs.
Total income as per regular provisions	8,58,300
Add: Allowance and deductions blocked u/s 115BAC:	
• Standard deduction u/s 16(ia)	50,000
• Deductions under Chapter VIA	1,80,000
Total income u/s 115BAC	10,88,300

## Computation of tax liability of Kanchan for AY 2023-24

Particulars	Regular rates	115BAC rates
Total income	8,58,300	10,88,300
Tax on total income as per regular rates or 115BAC rates, as the case may be	81,660	92,660
Less: Rebate u/s 87A (N/A as total income is > 5 lakh)	-	-
	81,660	92,660
Add: Surcharge (N/A as total income is not > 50 lakh)	-	-
	81,660	92,660
Add: HEC @ 4%	3,266	3,706
Tax liability	84,926	96,366
Less: TDS u/s 194-IA for sale of house (as consideration and SDV are both not < 50 lakh) @ 1% of 80 lakh (higher of 80 lakh or 79 lakh) (assuming the house was sold to a resident)	(80,000)	(80,000)
Less: Advance income tax paid	(90,000)	(90,000)
Tax payable/refundable	(85,074)	(73,634)
<b>Tax payable/refundable (rounded off)</b>	<b>(85,070)</b>	<b>(73,630)</b>
Kanchan should not opt for section 115BAC (she should also note the restrictive conditions of opting in/out of section 115BAC since she has income from business/profession). Tax refundable will be Rs. 85,070.		

**B20. CA2019(NOV)** – Mr. Jagdish, aged 61 years, has set up his business in Thailand and is residing in Thailand since last 20 years. He owns a house property in Bangkok, half of which is used as his residence and half is given on rent (such rent received, converted in INR, is Rs. 6,00,000). The annual value of the house in Thailand is Rs. 50,00,000, i.e., converted value in INR.

He purchased a flat in Pune during FY 2016-17, which has been given on monthly rent of Rs. 27,500 since 1.7.2019. The annual property tax of Pune flat is Rs. 40,000 which is paid by Mr. Jagdish whenever he comes to India. He last visited India in July 2019. He has taken a loan from Union Bank of India for purchase of Pune flat amounting to Rs. 15,00,000. Interest on such loan for FY 2022-23 was Rs. 84,000. However, interest for March 2023 quarter has not been paid yet by Mr. Jagdish.

He had a house in Jaipur which was sold in May 2016. In respect of this house, he received arrears of rent of Rs. 96,000 in February 2023 (not taxed earlier).

He also derived some other incomes during FY 2022-23 which are as follows:

- Profit from business in Thailand Rs. 2,75,000.
- Interest on bonds of a Japanese company Rs. 45,000 out of which 50% was received in India.
- Income from Apple Orchid in Nepal given on contract and the yearly contract fee of Rs. 5,00,000 for FY 2022-23 was deposited directly by the contractor in Kathmandu branch of Union Bank of India in Mr. Jagdish's bank account maintained with the bank's Pune branch.

Compute total income of Mr. Jagdish for AY 2023-24 chargeable to tax in India. Ignore provisions of section 115BAC.

■ **Residential status of Mr. Jagdish for AY 2023-24:** Mr. Jagdish should be in India for  $\geq 182$  days in PY 2022-23 or should be in India for  $\geq 60$  days in PY 2022-23 and in India for  $\geq 365$  days in preceding 4 PYs. Since he does not satisfy any of these conditions, he is a non-resident.

## Computation of total income of Mr. Jagdish for AY 2023-24

Particulars	Rs.	Rs.	Rs.
<b>Income from house property:</b>			
House property in Bangkok: Income does not accrue or arise in India, it is not deemed to accrue or arise in India and it is not received in India. Hence, it is not taxable.			-
House property in Pune: Income accrues or arises in India, hence, taxable.			
Gross annual value (annual rent is taken in absence of information about expected rent) @ Rs.		3,30,000	



27,500 p.m.			
Less: Municipal taxes: Not deductible since not paid during the PY by Mr. Jagdish		-	
Net annual value		3,30,000	
Less: Deductions u/s 24:			
Standard deduction @ 30% of NAV	(99,000)		
Interest on capital borrowed: Deductible on due basis	(84,000)	(1,83,000)	
		1,47,000	
Arrears of rent received for house in Jaipur: Taxable u/s 25A (since not taxed earlier) even if he is no more the owner of house.	96,000		
Less: Deduction @ 30%	(28,800)	67,200	2,14,200
<b>Profits and gains of business or profession:</b>			
Business in Thailand: Income does not accrue or arise in India, it is not deemed to accrue or arise in India and it is not received in India. Hence, not taxable.			-
<b>Income from other sources:</b>			
Interest on bonds of Japanese company: Taxable to the extent received in India		22,500	
Income from Apple Orchid in Nepal: Taxable as deposited directly in Kathmandu Branch of UBI in Mr. Jagdish's account maintained at branch in Pune (alternate view possible is that amount is first received in Kathmandu and then remitted in India, hence, not taxable in India)		5,00,000	5,22,500
<b>Total income</b>			<b>7,36,700</b>

*Mistake by students – Absence of proper reasoning, especially for house property in Bangkok and profit from business in Thailand.*

**B21. CA2019(MAY)** – From the following particulars of Shri Jagdish (aged 59 years) for AY 2023-24, you are required to find out his taxable income and net tax liability, after considering provisions of section 115BAC.

- Basic salary @ Rs. 51,000 pm, dearness allowance @ Rs. 10,000 pm (part of salary for retirement benefits). House rent allowance Rs. 4,000 pm and rent paid for house in Mumbai is Rs. 7,000 pm.
- He owns a commercial building at New Delhi, which is let out on 1.7.2022 at a monthly rent of Rs. 46,000. He paid municipal taxes of Rs. 27,000 and Rs. 25,000 for FY 2021-22 and 2022-23 on 31.3.2023 and 20.4.2023, respectively.
- He deals in shares. During FY 2022-23, he earned Rs. 1,70,000 from his share business and paid Rs. 30,000 as security transaction tax.
- He purchased 4,000 unlisted shares of Shyam Limited on 16.1.2011 for Rs. 80,000. Company declared bonus in the ratio of 1:1 on 1.2.2011. Shri Jagdish sold 3,000 bonus shares on 28.12.2022 for Rs. 2,00,000 to his friend Mr. Mehl through unrecognized stock exchange.
- He received dividend of Rs. 3,00,000 as dividend income from listed domestic company (gross of TDS), interest from saving bank account deposits with IDBI bank Rs. 25,000 and lottery winnings (net of TDS @ 30%) is Rs. 21,000.

He paid the following amount out of his taxable income:

- Deposits in PPF Rs. 2,00,000
- Medical insurance premium paid for health of his wife Rs. 19,000 and for health of dependent son Rs. 12,000 through cheque.

*Computation of total income of Mr. Jagdish for AY 2023-24 (under regular provisions)*

Particulars	Rs.	Rs.
<b>Income from salaries:</b>		
Basic salary = Rs. 51,000 × 12	6,12,000	
Dearness allowance = Rs. 10,000 × 12	1,20,000	
House rent allowance = Rs. 4,000 × 12	48,000	
Less: HRA exempt u/s 10(13A) = Lower of the following:		
(a) Actual HRA received = Rs. 48,000		
(b) Rent paid – 10% of salary of Rs. 7,32,000 (basic + DA) = Rs. 84,000 – Rs. 73,200 = Rs. 10,800		
(c) 50% of salary for Mumbai = Rs. 3,66,000	(10,800)	
Gross salary	7,69,200	
Less: Standard deduction u/s 16(ia)	(50,000)	
		7,19,200
<b>Income from house property:</b>		
In absence of information regarding expected rent, it is assumed that actual rent is not < expected rent	4,14,000	

for the whole year but due to vacancy, actual rent is < expected rent. Hence, vacancy allowance is available and gross annual value is actual rent, i.e., Rs. 46,000 × 9		
Less: Municipal taxes paid during PY 2022-23	(27,000)	
Net annual value	3,87,000	
Less: Standard deduction u/s 24(a) @ 30% of NAV	(1,16,100)	
		2,70,900
<b>Profits and gains of business or profession:</b>		
Profit from share business	1,70,000	
Less: STT deductible u/s 36(1)(xv)	(30,000)	
		1,40,000
<b>Capital gains:</b>		
Full value of consideration on sale of unlisted bonus shares	2,00,000	
Less: Cost of acquisition	Nil	
Long term capital gains (since bonus shares are held for more than 24 months)		2,00,000
<b>Income from other sources:</b>		
Dividend (gross of TDS)	3,00,000	
Interest on saving bank account with IDBI bank	25,000	
Winning from lottery: Gross = Rs. 21,000 × (100/70)	30,000	
		3,55,000
<b>Gross total income</b>		<b>16,85,100</b>
Less: Deduction under Chapter VIA:		
Section 80C: PPF deposit; deduction limited to Rs. 1,50,000	1,50,000	
Section 80D: Medical insurance premium for wife and dependent son; deduction limited to Rs. 25,000	25,000	
Section 80TTA: Interest on saving bank account up to Rs. 10,000	10,000	(1,85,000)
<b>Total income</b>		<b>15,00,100</b>

*Computation of total income of Mr. Jagdish for AY 2023-24 (under section 115BAC)*

Particulars	Rs.
Total income as per regular provisions	15,00,100
Add: Allowance and deductions blocked u/s 115BAC:	
• Exemption for HRA u/s 10(13A)	10,800
• Standard deduction u/s 16(ia)	50,000
• Deductions under Chapter VIA	1,85,000
<b>Total income u/s 115BAC</b>	<b>17,45,900</b>

*Computation of net tax liability of Mr. Jagdish for AY 2023-24*

Particulars	Regular rates	115BAC rates
Total income	15,00,100	17,45,900
Tax on total income:		
On long term capital gain u/s 112 @ 20% of Rs. 2,00,000	40,000	40,000
On winning from lottery u/s 115BB @ 30% of Rs. 30,000	9,000	9,000
On balance income of Rs. 12,70,100 at regular rates or Rs. 15,15,900 at 115BAC rates	1,93,530	1,92,270
	2,42,530	2,41,270
Less: Rebate u/s 87A (N/A as total income is > 5 lakh)	-	-
	2,42,530	2,41,270
Add: Surcharge (N/A as total income does not exceed 50 lakh)	-	-
	2,42,530	2,41,270
Add: HEC @ 4%	9,701	9,651
Tax liability	2,52,231	2,50,921
Less: TDS from lottery u/s 194B	(9,000)	(9,000)
Less: TDS from rental income: Assumed that TDS is not applicable u/s 194-I on rental income. Also, section 194-IB is not applicable since monthly rent does not exceed Rs. 50,000 pm.	-	-

Less: TDS from dividend u/s 194 @ 10%	(30,000)	(30,000)
Tax payable	2,13,231	2,11,921
<b>Tax liability (rounded off)</b>	<b>2,13,230</b>	<b>2,11,920</b>
Mr. Jagdish can opt for section 115BAC (he should also note the restrictive conditions of opting in/out of section 115BAC since he has income from business/profession). Tax liability will be Rs. 2,11,920.		

*Mistake by students – Failure to apply special tax rate for capital gain and lottery income.*

**B22. CA2019(M)** - Ms. Geeta, a resident individual, provides following details of her income/losses for the year ended 31.3.2023:

Particulars	Rs.
Income from salary (computed)	41,20,000
Rent received from house property situated in Delhi	5,00,000
Interest on loan taken for purchase of above property. Loan was taken from a friend.	7,50,000
Rent received from house property situated in Jaipur	3,20,000
Interest on loan taken for house property in Mumbai which is self occupied. Loan was originally taken from PNB on 1.1.1999 for purchase of this property but was later refinanced by SBI on 1.5.2012.	1,57,000
Interest on loan taken for repair of house properties situated in Mumbai and Delhi. Loan was taken on 1.4.2021 and was utilized in 50:50 ratio for these house properties, respectively.	1,50,000
Long term capital gains on sale of equity shares computed as per section 112A	8,95,000
Interest on fixed deposit	73,000
Loss from textile business	7,50,000
Speculation profit	2,30,000
Lottery income	75,000
Loss incurred by the firm in which she is a partner	1,60,000
Salary received as partner from partnership firm. The same was allowed to firm	50,000
Brought forward short term capital loss on sale of gold	2,75,000
Brought forward loss on sale of equity shares of the nature specified u/s 111A	25,000
Life insurance premium paid for her son who is 30 years of age and is working in USA	15,000

Compute total income and tax liability of Ms. Geeta for AY 2023-24, assuming that she has not opted for section 115BAC, and the amount of loss that can be carried forward. For the above solution, you may assume principal repayment of loan as under:

1. Loan taken for purchase of house property in Delhi Rs. 2,50,000
2. Loan taken for purchase of house property in Mumbai Rs. 50,000
3. Loan taken for repair of house properties in Delhi and Mumbai Rs. 75,000

Working notes should form part of your answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of note.

■  
Computation of total income of Ms. Geeta for AY 2023-24

Particulars	Rs.	Rs.	Rs.
<b>Income from salaries (computed)</b>			41,20,000
<b>Income from house property:</b>			
<i>House property in Delhi (let out):</i>			
Net annual value: Rent received is taken in absence of information regarding expected rent and municipal taxes	5,00,000		
Less: Deduction u/s 24:			
Standard deduction @ 30% of NAV	(1,50,000)		
Interest on loan for purchase of property	(7,50,000)		
Interest on loan for repair of property: 50% of Rs. 1,50,000	(75,000)		
Loss from house property		(4,75,000)	
<i>House property in Jaipur (let out):</i>			
Net annual value: Rent received is taken in absence of information regarding expected rent and municipal taxes	3,20,000		
Less: Deduction u/s 24: Standard deduction @ 30% of NAV	(96,000)		
Income from house property		2,24,000	

<i>House property in Mumbai (self occupied):</i>			
Annual value	Nil		
Less: Deduction u/s 24: Interest on loan for purchase and repair of property: Restricted to Rs. 30,000. Restriction applies for interest on loan for purchase also since original loan is taken before 1.4.1999	(30,000)		
Loss from house property		(30,000)	
Loss from house property after inter source set off u/s 70		(2,81,000)	
Loss from house property set off against income from salary u/s 71 to the extent of Rs. 2,00,000. Balance is carried forward u/s 71B to the next year.			(2,00,000)
			39,20,000
<b>Profits and gains of business or profession:</b>			
Speculation profit (assumed it is from a business)		2,30,000	
Salary from firm: Taxable since allowed to the firm		50,000	
		2,80,000	
Loss of firm in which she is a partner: Cannot be set off since share of profit from firm is exempt u/s 10(2A)		-	
Loss from textile business set off u/s 70 (balance of Rs. 4,70,000 (Rs. 7,50,000 – Rs. 2,80,000) can be set off against capital gains or IFOS u/s 71)		(2,80,000)	Nil
<b>Capital gains:</b>			
Long term capital gains on sale of equity shares u/s 112A		8,95,000	
Less: B/fd short term capital loss on sale of gold set off u/s 74 (assuming the carry forward period of 8 years has not expired)		(2,75,000)	
Less: B/fd loss on sale of equity shares u/s 111A set off u/s 74 (assuming the carry forward period of 8 years has not expired)		(25,000)	
		5,95,000	
Less: Loss from textile business set off u/s 71 (Rs. 4,70,000 – Rs. 73,000 set off against IFOS). It is better to first set off the loss against IFOS taxable at normal rate and then set off against LTCG taxable at concessional rate.		(3,97,000)	1,98,000
<b>Income from other sources:</b>			
Interest on fixed deposits		73,000	
Less: Loss from textile business set off u/s 71		(73,000)	
		Nil	
Lottery income (assumed it is gross income)		75,000	75,000
<b>Gross total income</b>			<b>41,93,000</b>
Less: Deduction under Chapter VIA: U/s 80C:			
Life insurance premium: Deductible (assuming it is within the % limit of sum assured as specified u/s 80C)		15,000	
Repayment of housing loan:			
• House property in Delhi: Not allowed since loan is taken from a friend		-	
• House property in Mumbai: Allowed since it is taken from bank		50,000	
• For repair: Not allowed since loan is not taken for purchase or construction		-	
U/s 80EE/80EEA for interest on loan taken to acquire residential house property: Not allowed assuming that all the conditions for deduction are not satisfied		-	(65,000)
<b>Total income</b>			<b>41,28,000</b>

*Statement of loss to be carried forward to AY 2024-25*

Particulars	Rs.
Loss from house property u/s 71B: Rs. 2,81,000 – Rs. 2,00,000	81,000

*Computation of tax liability for AY 2023-24*

Particulars	Rs.
Tax on total income:	
• On long term capital gain u/s 112A (exceeding Rs. 1 lakh) @ 10% of Rs. 98,000 (Rs. 1,98,000 – Rs. 1,00,000)	9,800

• On lottery income: @ 30% u/s 115BB of Rs. 75,000	22,500
• On balance income of Rs. 38,55,000 at regular rates	9,69,000
	10,01,300
Less: Rebate u/s 87A (N/A as total income is > 5 lakh)	-
	10,01,300
Add: Surcharge (Nil as total income is up to Rs. 50 lakh)	-
	10,01,300
Add: HEC @ 4%	40,052
Tax liability (subject to adjustment of TDS on lottery @ 30% of Rs. 22,500, TDS on interest on FD, if any, and advance tax paid, if any)	10,41,352
<b>Tax liability (rounded off)</b>	<b>10,41,350</b>

*Mistake by students: Failed to set off textile business loss against capital gains and IFOS. Allowed deduction u/s 80C for repayment of loan taken for repair.*

**B23. CA2019(MAY)** – Mr. X is working in a private company since last 10 years. His salary details for FY 2022-23 are:

1. Basic salary 1,50,000 pm
2. Dearness allowance 55,000 pm
3. Commission 35,000 pm
4. Transport allowance 5,000 pm
5. Medical reimbursement 30,000 paid during the year

Mr. X resigned from the services on 30.9.2022. He was paid gratuity of Rs. 20 lakh on his retirement. A lumpsum amount of Rs. 36 lakh was also paid from unrecognized provident fund. The provident fund amount consisted of employer's contribution Rs. 13.20 lakh and interest thereon Rs. 3 lakh. The employee's contribution was Rs. 16.20 lakh and interest thereon Rs. 3.60 lakh.

He had taken the possession of house on 28.2.2023 after making payment of final instalment of housing loan to bank. Loan was taken on 1.4.2019. The accumulated interest as on 31.3.2022 was Rs. 1.5 lakh. He made payment of Rs. 2,20,000 during the year which included interest of Rs. 1,10,000 for 11 months.

He started business of hiring of goods vehicle, purchased 3 small goods vehicle on 15.11.2022 and 3 heavy goods vehicle having gross weight of 15 MTs each on 1.12.2022. He did not maintain books of account for income and expenditure of hiring of goods vehicle. One of his friends gifted him Rs. 6 lakh to purchase the vehicles.

He was holding 25% equity shares in CMF Ltd., an Indian company. The paid up share capital of company as on 31.3.2022 was Rs. 20 lakh divided into 2 lakh shares of Rs. 10 each which were issued at premium of Rs. 30 each. Company allotted shares to shareholders on 1.10.2015. Company bought back 30% of its shares on 30.4.2022 under the provisions of Companies Act, 2013 on making payment of Rs. 60 per share.

He paid insurance premium of Rs. 20,000 on his life policy during the FY 2022-23. The policy was taken in April 2011 and sum assured was Rs. 1,50,000. He also made payment of Rs. 25,000 towards LIC pension fund and premium of Rs. 40,000 towards mediclaim policy for self and wife.

Compute total income and tax payable for AY 2023-24 (considering provisions of section 115BAC). There was no change in salary of Mr. X from last two years.

■

Computation of total income of Mr. X for AY 2023-24 (under regular provisions)

Particulars	Rs.	Rs.	Rs.
<b>Income from salaries:</b>			
Basic salary @ 1,50,000 pm for 6 months		9,00,000	
Dearness allowance @ 55,000 pm for 6 months		3,30,000	
Commission @ 35,000 pm for 6 months		2,10,000	
Transport allowance @ 5,000 pm for 6 months		30,000	
Medical reimbursement: Taxable (in absence of information regarding treatment)		30,000	
Gratuity	20,00,000		
Less: Exemption u/s 10(10) (assuming he is not covered under Payment of Gratuity Act, 1972) = Lower of the following:			
A: Amount actually received as gratuity = Rs. 20 lakh			
B: Notified limit Rs. 20 lakh			
C: Half month salary for each year of service: Average salary of preceding 10 months = [10 ×	(7,50,000)	12,50,000	

Rs. 1,50,000] ÷ 10 = Rs. 1,50,000 (assuming DA does not form part of pay for retirement benefits; commission not considered since it is not based on % of turnover). Half month salary = Rs. 75,000. Years of service (completed) = 10. Half month salary for each year of service = Rs. 7,50,000			
Unrecognized PF: Employer's contribution and interest thereon is taxable as salary		16,20,000	
Gross salary		43,70,000	
Less: Standard deduction u/s 16(ia)		(50,000)	
			43,20,000
<b>Income from house property:</b>			
Net annual value (assumed that house is self occupied)		Nil	
Less: Deduction u/s 24(b) in respect of interest on loan:			
Current year interest		(1,10,000)	
Prior period interest of 1.5 lakh deductible in 5 annual instalments		(30,000)	
Loss from house property: Set off against salary income u/s 71			(1,40,000)
			41,80,000
<b>Profits and gains of business or profession:</b>			
Income u/s 44AE for business of hiring of goods vehicle:			
Heavy goods vehicle = 3 vehicles × Rs. 1,000 × 15 ton × 4 months		1,80,000	
Other vehicles = 3 vehicles × Rs. 7,500 × 5 months		1,12,500	2,92,500
<b>Capital gains:</b>			
Income on buy back of equity shares in CMF Ltd. being a domestic company: It is exempt u/s 10(34A). It is also not treated as dividend u/s 2(22).			-
<b>Income from other sources:</b>			
Unrecognized PF – Interest on employee's contribution		3,60,000	
Unrecognized PF – Employee's contribution is not taxable		Nil	
Gift of money from friend exceeding Rs. 50,000: Taxable u/s 56(2)(x)		6,00,000	9,60,000
<b>Gross total income</b>			<b>54,32,500</b>
Less: Deduction under Chapter VIA:			
U/s 80C: Life insurance premium deductible up to 20% of sum assured since policy is taken before 1.4.2012		20,000	
U/s 80C: Repayment of housing loan		1,10,000	
U/s 80CCC: LIC pension fund		25,000	
		1,55,000	
Restricted to Rs. 1,50,000 u/s 80CCE		1,50,000	
U/s 80D: Mediclaim for self and wife; restricted to Rs. 25,000		25,000	
U/s 80EE/80EEA for interest on loan for acquisition of property: Not available assuming that all the conditions for deduction are not satisfied.		-	(1,75,000)
<b>Total income</b>			<b>52,57,500</b>

*Computation of total income of Mr. X for AY 2023-24 (under section 115BAC)*

Particulars	Rs.
Total income as per regular provisions	52,57,500
Add: Allowance and deductions blocked u/s 115BAC:	
• Standard deduction u/s 16(ia)	50,000
• Interest on borrowed capital u/s 24(b) for self occupied property	1,40,000
• Deductions under Chapter VIA	1,75,000
<b>Total income u/s 115BAC</b>	<b>56,22,500</b>

## Computation of tax payable by Mr. X for AY 2023-24

Particulars	Regular rates	115BAC rates
Total income at regular rates or 115BAC rates, as the case may be	52,57,500	56,22,500
Tax on total income	13,89,750	14,24,250
Less: Rebate u/s 87A (N/A as total income is > 5 lakh)	-	-
	13,89,750	14,24,250
Add: Surcharge (10% as total income is > 50 lakh and up to 1 crore)	1,38,975	1,42,425
	15,28,725	15,66,675
Add: HEC @ 4%	61,149	62,667
Tax liability	15,89,874	16,29,342
<b>Tax liability (rounded off)</b>	<b>15,89,870</b>	<b>16,29,340</b>
Mr. X should not opt for section 115BAC (he should also note the restrictive conditions of opting in/out of section 115BAC since he has income from business/profession). Tax payable will be Rs. 15,89,870.		

*Mistake by students – Computed salary for the whole year instead of six months.*

**B24. CA2018(NOV)** – Miss Sakshitha, a resident individual, aged 32 years, furnishes the following particulars relating to the year ended 31.3.2023:

(a) Analysis of her bank account in her ledger reveals the under mentioned data:

Particulars	Rs.
Winnings from a TV game show (net)	70,000
Gift received from mother's father	80,000
Gift received from Ramya, her close friend	60,000
Interest on capital received from Vidyut & Co., a partnership firm in which she is a partner (@ 15% p.a.)	3,00,000
Rent received from a vacant plot of land	2,00,000
Amount received from Sharks Pvt. Ltd. for a house at Salem for which she had been in negotiation for enhanced rent three years back. This has not been taxed in any earlier year. The house was, however, sold off in March, 2022.	1,50,000
Amount received under Keyman insurance policy	2,20,000
Amount forfeited from a buyer of her vacant plot, since the buyer could not finalize the deal as per agreement	3,10,000

(b) Donation given in cash to a charitable trust registered u/s 12AA Rs. 12,000

(c) She owns agricultural lands in Colombo, Sri Lanka, She has derived agricultural income there from Rs. 1,80,000.

(d) PPF paid in the name of her minor daughter Rs. 75,000.

(e) Interest credited in the said PPF account during the year Rs. 8,900.

(f) Share of profits received from Vidyut & Co. Rs. 1,90,000.

You are required to compute the total income of the assessee and the tax payable for AY 2023-24 after considering section 115BAC. Computation should be made under proper heads of income.

■

## Computation of total income of Ms. Sakshitha for AY 2023-24 (under regular provisions)

Particulars	Rs.	Rs.
<b>Income from house property:</b>		
Arrears of rent: Taxable u/s 25A even if she is no more the owner of house	1,50,000	
Less: Deduction @ 30%	(45,000)	
		1,05,000
<b>Profits and gains of business or profession:</b>		
Interest on capital from partnership firm: Assuming it is authorized by partnership deed and is allowed to the firm up to 12% u/s 40(b), hence, taxable = Rs 3,00,000 × (12/15)	2,40,000	
Share of profit from partnership firm: Exempt u/s 10(2A)	-	
Amount received under Keyman insurance policy taxable u/s 28(vi)	2,20,000	
		4,60,000
<b>Income from other sources:</b>		
Gift received from non-relatives exceeding Rs. 50,000 in the aggregate (taxable u/s 56(2)(x):		
• From mother's father: Taxable based on the view that he is not a lineal ascendant. Alternate view is also possible that maternal grandparents are lineal ascendants and, thus, 'relative'.	80,000	

• From close friend	60,000	
	1,40,000	
Winning from TV game show: Gross of 30% TDS u/s 194B = Rs. 70,000 × (100/70)	1,00,000	
Rent from vacant plot of land	2,00,000	
Amount forfeited from buyer of vacant plot taxable u/s 56(2)(ix)	3,10,000	
Agricultural income from lands in Colombo: Not exempt since land is not situated in India; assumed to be rent or revenue from land received in India, thus, taxable under the head IFOS	1,80,000	
Interest credited to PPF account: Exempt u/s 10(11)	-	
		9,30,000
<b>Gross total income</b>		<b>14,95,000</b>
<b>Less: Deduction under Chapter VIA:</b>		
U/s 80C: PPF subscription for minor daughter	75,000	
U/s 80G: Donation to trust in cash: Not allowed since amount is > Rs. 2,000 donated in cash	-	
		(75,000)
<b>Total income</b>		<b>14,20,000</b>

*Computation of total income of Ms. Sakshitha for AY 2023-24 (under section 115BAC)*

Particulars	Rs.
Total income as per regular provisions	14,20,000
Add: Allowance and deductions blocked u/s 115BAC: Deductions under Chapter VIA	75,000
<b>Total income u/s 115BAC</b>	<b>14,95,000</b>

*Computation of tax liability of Ms. Sakshitha for AY 2023-24*

Particulars	Regular	115BAC
Total income	14,20,000	14,95,000
Tax on total income:		
• On winning from lottery u/s 115BB @ 30% of Rs. 1,00,000	30,000	30,000
• On balance income of Rs. 13,20,000 at regular rates or Rs. 13,95,000 at 115BAC rates	2,08,500	1,61,250
	2,38,500	1,91,250
Less: Rebate u/s 87A (N/A as total income is > 5 lakh)	-	-
	2,38,500	1,91,250
Add: Surcharge (N/A as total income does not exceed 50 lakh)	-	-
	2,38,500	1,91,250
Add: HEC @ 4%	9,540	7,650
Tax liability	2,48,040	1,98,900
Less: TDS from winning u/s 194B. In absence of adequate information in the question, TDS u/s 194DA from sum received under Keyman Insurance policy has been ignored.	(30,000)	(30,000)
<b>Tax payable</b>	<b>2,18,040</b>	<b>1,68,900</b>
Ms. Sakshitha can opt for section 115BAC (she should also note the restrictive conditions of opting in/out of section 115BAC since she has income from business/profession). Tax payable will be Rs. 1,68,900.		

*Mistake by students – Allowed deduction u/s 80G for donation in cash.*

**B25. CA2018(NOV)** – Mr. Murari, a resident individual of age 48 years, provides consultancy services in the field of accountancy. His Income and Expenditure account for the year ended 31.3.2023 is as follows:

Expenditure	Rs.	Income	Rs.
To Salary	3,00,000	By Consulting fees	8,00,000
To Motor car expenses	58,000	By Share of profit from HUF	25,000
To Depreciation	47,500	By Interest on saving bank deposit	15,000
To Medical expenses	70,000	By Interest on income tax refund	8,000
To Purchase of computer	80,000		
To Bonus	10,000		
To General expenses	55,000		



To Office & administrative	75,000		
To Excess of income over expenditure	1,52,500		
	<b>8,48,000</b>		<b>8,48,000</b>

The following other information relates to FY 2022-23:

- Salary includes a payment of Rs. 12,000 pm to his brother in law who is in charge of marketing department. However, in comparison to similar business, the reasonable salary of a marketing supervisor is Rs. 10,000 pm.
- Interest on saving bank deposit belongs to his wife who deposited the money out of the pocket money given to her every month.
- Written down value of the assets as on 1.4.2022 are as follows:
  - Motor car (40% used for personal purpose) Rs. 2,00,000
  - Furniture and fittings Rs. 50,000
- Medical expenses include:
  - Family planning expenditure of Rs. 15,000 incurred for the employees which was revenue in nature.
  - Medical expenses for his father Rs. 35,000 (age is 65 years).
- The computer was purchased on 5.6.2022 on credit. The total invoice was paid in the following manner:
  - Rs. 18,000 paid in cash as down payment on the date of purchase.
  - Remaining amount paid through account payee cheque on 10.8.2022.
- Bonus was paid on 30.9.2023.
- General expenses include commission payment of Rs. 22,000 to Mr. Sridhar for the promotion of business on 17.9.2022 without deduction of tax at source.
- Income tax refund received during the year was Rs. 1,00,000.
- He also received gold coins from a family friend on the occasion of marriage anniversary on 5.12.2022. The market value of coins on the said date was Rs. 55,000.

Compute total income and tax liability for AY 2023-24. He has not opted for section 115BAC.

■ **Computation of total income of Mr. Murari for AY 2023-24**

Particulars	Rs.	Rs.
<b>Profits and gains of business or profession:</b>		
Net income as per Income & Expenditure account		1,52,500
<b>Add: Expenses debited but not allowable:</b>		
Excess salary to brother-in-law: Not disallowed u/s 40A(2) since he is not a 'relative'	-	
Motor car expenses attributable to personal use @ 40% of Rs. 58,000	23,200	
Depreciation as per books of account (considered separately)	47,500	
Medical expenses:		
• Family planning expenditure: Not allowed u/s 37(1) assuming it is not for business purpose; further, not allowed u/s 36(1)(ix) since deduction therein is available only to a company	15,000	
• Medical expenses of father: Not allowed u/s 37(1) since it is personal in nature	35,000	
• Balance medical expenses (assumed to be incurred for staff; thus, allowed u/s 37(1))	-	
Purchase of computer (depreciation is allowed separately)	80,000	
Bonus: Allowed u/s 43B since it is paid before the due date to furnish return u/s 139(1) of 31.10.2023 ( <b>Note 1</b> )	-	
Commission to Mr. Sridhar without TDS: Mr. Murari is liable to deduct tax u/s 194H if gross receipts for FY 2021-22 is > Rs. 50 lakh. Assuming this is not the case, he is not liable to deduct tax. Hence, disallowance u/s 40(a)(ia) is not attracted.	-	2,00,700
<b>Less: Income credited but not taxable or not taxable under the head PGBP:</b>		
Share of profit from HUF: Exempt u/s 10(2)	25,000	
Interest on saving bank deposit (covered under the head IFOS)	15,000	
Interest on income tax refund (covered under the head IFOS)	8,000	
Depreciation as per Income-tax Act ( <b>Note 2</b> )	47,800	(95,800)
		<b>2,57,400</b>
<b>Income from other sources:</b>		
Interest on saving bank deposit: Not clubbed u/s 64(1)(iv) assuming pocket money is in nature of pin money.	-	
Income tax refund: Not taxable	-	
Interest on income tax refund	8,000	

Gold coins received from family friend: Taxable u/s 56(2)(x) as FMV is > Rs. 50,000	55,000	63,000
Gross total income		3,20,400
Less: Deduction under Chapter VIA: U/s 80D: Medical expenses on father aged 65 years (assuming he is a resident and, thus, a senior citizen and no health insurance premium has been paid for him.		(35,000)
<b>Total income</b>		<b>2,85,400</b>

*Computation of tax liability of Mr. Murari for AY 2023-24*

Particulars	Rs.
Tax on total income	1,770
Less: Rebate u/s 87A as total income does not exceed Rs. 5 lakh	(1,770)
	Nil
Add: HEC @ 4%	Nil
<b>Tax liability</b>	<b>Nil</b>

*Note 1:* Mr. Murari is eligible for section 44ADA under which his presumptive income would be 50% of gross receipts (consulting fees), i.e., Rs. 4 lakh and no deduction of any expenditure will be allowed. Since this is more than the business income computed as per regular provisions, he can opt out of section 44ADA by maintaining books of account u/s 44AA and getting tax audit done u/s 44AB. In such case, due date of filing return u/s 139(1) would be 31.10.2023.

*Note 2: Computation of depreciation*

Particulars	Rs.
Motor car: Rs. 2,00,000 × 15% (general rate) × 60% (for business use)	18,000
Furniture and fittings: Rs. 50,000 × 10%	5,000
Computer: Actual cost = Rs. 80,000 – Rs. 18,000 paid in cash (to a person in a day exceeding Rs. 10,000) disallowed from actual cost = Rs. 62,000. Depreciation @ 40%	24,800
	47,800

*Mistake by students: Not considering eligibility of section 44ADA, consequent due date of return being 31.10.2023 and allowability of bonus u/s 43B.*

**B26. CA2018(MAY)** – Mrs. Babu, working as journalist with ABC Ltd., provides the following information for year ended 31.3.2023:

- Basic salary Rs. 25,000 pm
- DA (50% is meant for retirement benefits) 50% of basic pay
- Own contribution to recognized provident fund (RPF) Rs. 30,000
- Employer's contribution to RPF 20% of basic salary
- Interest credited to RPF account @ 15% p.a. Rs. 15,000
- Arrears of rent received from ABC Ltd. Rs. 69,000

Received interest of Rs. 10,000 from Axis Bank Savings account during the year and interest of Rs. 12,040 from debentures of M/s Coal India Ltd.

She made payment through cheque of Rs. 12,500 for mediclaim insurance policy for her major daughter.

She had contributed Rs. 1,196 pm towards Atal Pension Yojana and Rs. 5,000 pm towards Sukanya Samridhi Account.

M/s ABC Ltd has taken residential house of Mrs. Babu as company's guest house and later purchased from her in the year 2021 at market value for Rs. 75 lakh. Purchase cost was only Rs. 10 lakh in April 2006.

During August 2022, Mrs. Babu lost her gold chain and a diamond ring which she had purchased in April 2006 for Rs. 1,13,000. Market value of these items were Rs. 2,50,000 and she has received insurance compensation of Rs. 2,75,000 during February 2023.

Compute her total income and most beneficial tax liability for AY 2023-24.

■

*Computation of total income of Mrs. Babu for AY 2023-24 (under regular provisions)*

Particulars	Rs.	Rs.
<b>Income from salaries:</b>		
Basic salary		3,00,000
Dearness allowance		1,50,000
Employer's contribution to RPF: Taxable = 60,000 (20% of Rs. 3,00,000) – 45,000 (12% of Rs. 3,75,000 (Rs. 3,00,000 basic + Rs. 75,000 DA meant for retirement benefits))		15,000

Interest credited to RPF @ 15% p.a.: Taxable = 15,000 – 9,500 exempt up to 9.5%		5,500
Gross salary		4,70,500
Less: Standard deduction u/s 16(ia)		(50,000)
		4,20,500
<b>Income from house property:</b>		
Arrears of rent: Taxable u/s 25A even if she is no longer the owner of property	69,000	
Less: Standard deduction u/s 25A @ 30%	(20,700)	48,300
<b>Capital gains:</b>		
On sale of guest house: Not taxable since transfer did not take place in AY 2023-24	-	
On jewellery: Not taxable since the asset itself ceases to exist. Not taxable u/s 45(1A) since the event of loss is not covered under that provision	-	-
<b>Income from other sources:</b>		
Interest received on savings bank account: Not grossed up for TDS u/s 194A as it is not > 40,000.	10,000	
Interest received on debentures (grossed up for TDS @ 10% u/s 193) = 12,040 × (100/90)	13,378	23,378
<b>Gross total income</b>		<b>4,92,178</b>
Less: Deduction under Chapter VIA:		
U/s 80C:		
• Own contribution to RPF	30,000	
• Deposit in Sukanya Samriddhi Account	60,000	(90,000)
U/s 80CCD(1): Own contribution to Atal Pension Yojana @ 1,196 p.m. allowed up to 10% of 80CCD-salary (Rs. 3,75,000 in this case being basic and DA meant for retirement benefits)		(14,352)
U/s 80D: Mediclaim premium or major daughter (assuming she is dependent)		(12,500)
U/s 80TTA: Interest on savings bank account allowed up to Rs. 10,000		(10,000)
<b>Total income</b>		<b>3,65,326</b>
<b>Total income (rounded off)</b>		<b>3,65,330</b>

*Computation of total income of Mrs. Babu for AY 2023-24 (under section 115BAC)*

Particulars	Rs.
Total income as per regular provisions	3,65,326
Add: Allowance and deductions blocked u/s 115BAC:	
• Standard deduction u/s 16(ia)	50,000
• Deductions under Chapter VIA	1,26,852
<b>Total income u/s 115BAC</b>	<b>5,42,178</b>
<b>Total income u/s 115BAC (rounded off)</b>	<b>5,42,180</b>

*Computation of tax liability of Mrs. Babu for AY 2023-24*

Particulars	Regular rates	115BAC rates
Total income	3,65,330	5,42,180
Tax on total income	5,767	16,718
Less: Rebate u/s 87A (where total income is not > Rs. 5 lakh)	(5,767)	-
	Nil	16,718
Add: HEC @ 4%	Nil	669
Tax liability	Nil	17,387
<b>Tax liability (rounded off) (subject to adjustment of TDS u/s 193 of Rs. 1,338)</b>	<b>Nil</b>	<b>17,390</b>

Mrs. Babu should not opt for section 115BAC. Tax liability will be Nil. TDS will be refunded.

*Mistake by students: Deduction for Sukanya Samriddhi and Atal Pension Yojana claimed u/s 80G. Arrears of rent wrongly charged under the head IFOS.*

**B27. CA2018(MAY)** – Mr. Hari, aged 55 years, a resident individual and practicing Chartered Accountant, furnishes you the receipts and payments account for FY 2022-23:

Receipts	Rs.	Payments	Rs.
Opening balances (1.4.2022) - Cash & Bank	20,000	Staff salary, bonus and stipend to articles clerks (including incentive of Rs. 50,000 for passing Inter exams in first attempt)	20,50,000
Fee from professional services	39,60,000	Other general and administrative expenses	12,00,000
Motor car loan from SBI @ 10% interest p.a.	2,00,000	Office rent	48,000
		Life insurance premium	23,000
		Motor car (acquired in January 2023 by way of online payment)	4,00,000
		Books bought (annual publication by credit card)	22,000
		Computer acquired on 1.11.2022 for professional use	25,000
		Domestic drawings	2,50,000
		Motor car maintenance	12,000
		PPF subscription	1,40,000
		Closing balances (31.3.2023) – Cash & Bank	10,000
	<b>41,80,000</b>		<b>41,80,000</b>

Other information:

- Motor car was put to use for both official and personal purposes. 1/4<sup>th</sup> of the motor car is for personal purpose. No interest on car loan was paid during the year.
- General expenses include travel expenses of Rs. 1,00,000 incurred on foreign tour within RBI norms.
- Mr. Hari purchased a flat in Jaipur for Rs. 15,00,000 in July 2015 cost of which was partly financed by a loan from SBI of Rs. 10,00,000 @ 10% interest, his own savings Rs. 1,00,000 and a deposit from Bank of Baroda for Rs. 4,00,000. The flat was given to Bank of Baroda on lease for 10 years @ Rs. 40,000 per month. The following particulars are relevant:
  - Municipal taxes paid by Mr. Hari Rs. 4,200 p.a.
  - House insurance Rs. 1,000
- He earned Rs. 1,00,000 in share speculation business and lost Rs. 1,50,000 in commodity speculation business.
- Mr. Hari received a gift of Rs. 15,000 each from four of his family friends.
- He contributed Rs. 1,11,000 to Prime Minister's Drought Relief Fund by way of bank draft.
- He donated to a registered political party Rs. 3,00,000 by way of cheque.

Compute the total income of Mr. Hari and the tax payable for AY 2023-24, considering the provisions of section 115BAC.

Computation of total income of Mr. Hari for AY 2023-24 (under regular provisions)

Particulars	Rs.	Rs.	Rs.
<b>Income from house property:</b>			
Gross annual value: Rent receivable is taken in absence of information on expected rent		4,80,000	
Less: Municipal taxes paid by Mr. Hari during the PY		(4,200)	
Net annual value		4,75,800	
Less: Deduction u/s 24:			
Standard deduction @ 30% of NAV		(1,42,740)	
Current year interest on loan @ 10% of Rs. 10,00,000 (assuming entire loan is outstanding and further assuming that prior period interest is not deductible in AY 2023-24)		(1,00,000)	
			2,33,060
<b>Profits and gains of business or profession:</b>			
Fees from professional services		39,60,000	
<b>Less: Expenses deductible:</b>			
Staff salary, bonus and stipend (including incentive)	20,50,000		
Other general and administrative expenses (foreign travel is assumed to be towards official purposes)	12,00,000		
Office rent	48,000		
Domestic drawing: Not deductible as it is for personal purpose	-		
Motor car maintenance: 3/4 <sup>th</sup> of Rs. 12,000 for business purpose	9,000		

Interest on car loan after the car is first put to use: Not allowed u/s 43B (assumed it is not paid on or before the due date of return u/s 139(1))	-	(33,07,000)	
		6,53,000	
<b>Less: Depreciation u/s 32:</b>			
Motor car: 3/4 <sup>th</sup> of 50% of 15% of Rs. 4,00,000: Car is used for < 180 days and 1/4 <sup>th</sup> is for personal use. Interest on loan is not added to actual cost assuming interest was not payable till the date motor car was first put to use.	22,500		
Books: 40% of Rs. 22,000 (assuming these are put to use for ≥ 180 days)	8,800		
Computer: 50% of 40% of Rs. 25,000 (put to use for < 180 days)	5,000	(36,300)	
Since gross receipts are not > Rs. 50 lakh, Mr. Hari can claim income u/s 44ADA @ 50% of gross receipts of Rs. 39,60,000, i.e., Rs. 19,80,000 which is more than business income computed as per regular provisions. He can claim the lower amount as business income if he maintains books of account u/s 44AA and gets tax audit done u/s 44AB.		6,16,700	
Income from share speculation business	1,00,000		
Less: Loss in commodity speculation business set off. Balance loss of Rs. 50,000 is carried forward u/s 73 to the next year.	(1,00,000)	Nil	
			6,16,700
<b>Income from other sources:</b>			
Cash gift of Rs. 60,000 from family friends: Taxable u/s 56(2)(x) as aggregate is > Rs. 50,000			60,000
<b>Gross total income</b>			<b>9,09,760</b>
<b>Less: Deduction under Chapter VIA:</b>			
Section 80C:			
Life insurance premium (assuming premium is within the % limit of sum assured)	23,000		
PPF subscription	1,40,000		
	1,63,000		
Allowed up to Rs. 1,50,000		1,50,000	
Section 80G: Donation to PM Drought Relief Fund by bank draft: @ 50%		55,500	
Section 80GGC: Donation to political party by cheque		3,00,000	
			(5,05,500)
<b>Total income</b>			<b>4,04,260</b>

*Computation of total income of Mr. Hari for AY 2023-24 (under section 115BAC)*

Particulars	Rs.
Total income as per regular provisions	4,04,260
Add: Deductions under Chapter VIA blocked u/s 115BAC:	5,05,500
<b>Total income u/s 115BAC</b>	<b>9,09,760</b>

*Computation of tax liability of Mr. Hari for AY 2023-24*

Particulars	Regular rates	115BAC rates
Total income	4,04,260	9,09,760
Tax on total income	7,713	61,464
Less: Rebate u/s 87A (where total income is not > Rs. 5 lakh)	(7,713)	-
	Nil	61,464
Add: Surcharge (N/A as total income does not exceed 50 lakh)	-	-
	Nil	61,464
Add: HEC @ 4%	-	2,459
Tax liability	Nil	63,923
<b>Tax liability (rounded off)</b>	<b>Nil</b>	<b>63,920</b>

Mr. Hari should not opt for section 115BAC (he should also note the restrictive conditions of opting in/out of section 115BAC since he has income from business/profession). Tax payable will be Nil.

**B28. CA2017(NOV)** – Mr. Pandey, a resident individual, aged 45 years, is a Chartered Accountant in practice. He maintains his accounts on cash basis. His Profit & Loss Account for the year ended 31.3.2023 is as follows:

Expenditure	Rs.	Income	Rs.
Staff Salary	18,25,000	Fees earned from audit	23,00,000
Rent of office premises	6,00,000	Fees earned from taxation	14,50,000
Administrative expenses	5,75,000	Fees from consultancy services relating to syndication of loan from financial institution	10,00,000
Stipend to articulated clerks	1,85,000		47,50,000
Meeting, seminars and conferences	36,500	Gifts	1,00,000
Depreciation	55,000	Dividends from Indian companies	12,00,000
Printing and stationery	8,75,000	Interest on deposit certificates issued under Gold Monetization Scheme, 2015	15,000
Net profit	19,13,500		
	<b>60,65,000</b>		<b>60,65,000</b>

Other information:

- Fee earned from audit includes Rs. 1,00,000 received in advance although it has not yet become due.
- Depreciation allowable under Income Tax Act Rs. 1,25,000.
- Administrative expenses include Rs. 55,000 paid to a tax consultant in cash for assisting Mr. Pandey in one of the professional assignments.
- Gifts represent fair market value of a LED TV given by one of the clients for successful presentation of case in the ITAT.
- Last month's rent of Rs. 50,000 was paid without deduction of tax at source.
- Mr. Pandey had taken a loan of Rs. 32,00,000 for the purchase of a house property valuing Rs. 45,00,000 from a recognized financial institution on 1.5.2022. He repaid Rs. 1,50,000 on 31.3.2023 out of which Rs. 1,00,000 is towards principal payment and the balance is for interest on loan. The possession of the property will be handed over to him in October 2023.
- Mr. Pandey paid medical insurance premium of his parents (senior citizens and not dependent on him) by cheque amounting to Rs. 27,000. He also paid Rs. 8,500 by cash towards preventive health checkup for himself and his spouse.

Compute the total income of Mr. Pandey and tax payable by him for AY 2023-24 (considering section 115BAC) assuming that he does not want to opt for presumptive taxation scheme u/s 44ADA.

Computation of total income of Mr. Pandey for AY 2023-24 (under regular provisions)

Particulars	Rs.	Rs.	Rs.
<b>Profits and gains of business or profession:</b>			
Net profit as per Profit & Loss Account		19,13,500	
<b>Add: Expenses debited but not deductible:</b>			
Payment in cash to tax consultant > Rs. 10,000: Disallowed u/s 40A(3)	55,000		
Payment of rent without TDS: 30% is disallowed u/s 40(a)(ia) assuming tax was deductible at source u/s 194-I (S. 194-IB is not applicable since rent is not > Rs. 50,000)	15,000		
Depreciation as per books of account (considered separately)	55,000	1,25,000	
		20,38,500	
<b>Less: Income credited but not taxable or taxable under other heads:</b>			
Audit fee received in advance (taxable on receipt basis in cash system of accounting; no adjustment required as already credited)	-		
Dividend from Indian companies: Covered under the head IFOS	12,00,000		
Interest on deposit certificates issued under Gold Monetization Scheme, 2015: Covered under the head IFOS	15,000		
Gift by client: Taxable u/s 28(iv) under the head PGBP being value of benefit or perquisite arising from profession. No adjustment is required as it is already credited.	-	(12,15,000)	
		8,23,500	
Less: Depreciation under Income Tax Act		(1,25,000)	
			6,98,500
<b>Income from other sources:</b>			
Dividend from Indian companies (assuming it is gross of TDS)		12,00,000	
Interest on deposit certificates under Gold Monetization Scheme, 2015: Exempt u/s 10		-	

			12,00,000
<b>Gross total income</b>			<b>18,98,500</b>
<i>Less: Deduction under Chapter VIA:</i>			
Section 80C: Repayment of housing loan: Not allowable since income is not taxable under the head IHP for AY 2023-24.			-
Section 80D:			
Medical insurance premium of parents (senior citizens and not dependent on him) by cheque: Allowed up to Rs. 50,000		27,000	
Preventive health checkup, paid in cash, for self and spouse: Allowed up to Rs. 5,000		5,000	
Section 80EEA: Not deductible assuming that all conditions for deduction are not satisfied			-
			(32,000)
<b>Total income</b>			<b>18,66,500</b>

*Computation of total income of Mr. Pandey for AY 2023-24 (under section 115BAC)*

Particulars	Rs.
Total income as per regular provisions	18,66,500
Add: Deductions under Chapter VIA blocked u/s 115BAC	32,000
<b>Total income u/s 115BAC</b>	<b>18,98,500</b>

*Computation of tax liability of Mr. Pandey for AY 2023-24*

Particulars	Regular rates	115BAC rates
Total income	18,66,500	18,98,500
Tax on total income	3,72,450	3,07,050
Less: Rebate u/s 87A (N/A as total income exceeds Rs. 5 lakh)	-	-
	3,72,450	3,07,050
Add: Surcharge (N/A as total income does not exceed 50 lakh)	-	-
	3,72,450	3,07,050
Add: HEC @ 4%	14,898	12,282
Tax liability	3,87,348	3,19,332
Less: TDS u/s 194 on dividend @ 10%	(1,20,000)	(1,20,000)
Tax payable	2,67,348	1,99,332
<b>Tax payable (rounded off)</b>	<b>2,67,350</b>	<b>1,99,330</b>

Mr. Pandey can opt for section 115BAC (he should also note the restrictive conditions of opting in/out of section 115BAC since he has income from business/profession). Tax payable will be Rs. 1,99,330.

**B29. CA2017(MAY)** – Ms. Rekha, a resident individual aged 50, provides the following information for FY 2022-23:

She is a partner in AK & Co. and received the following amounts from the firm:

- Share of profit from the firm Rs. 35,000
- Interest on capital @ 15% p.a. Rs. 3,00,000
- Salary as working partner (fully allowed in the hands of the firm) Rs. 1,00,000

She is running a rice mill as proprietor. The net profit as per Profit & Loss account is Rs. 4,50,000. The following items are debited to Profit & Loss account:

- Advance income tax paid Rs. 1,00,000
- Personal drawings Rs. 50,000

The following are credited to Profit & Loss account:

- Interest on savings bank account with SBI Rs. 12,000
- Interest on savings account with post office Rs. 5,000
- Dividend from listed Indian company Rs. 80,000

She owned a house property in Mumbai which was sold in January 2021. She received Rs. 90,000 by way of arrear of rent in respect of the said property in October 2022.

She made the following investments:

- Life insurance premium on a policy in the name of her married daughter Rs. 60,000. The policy was taken on 1.10.2017 and the sum assured being Rs. 5,00,000.

- Health insurance premium on a policy covering her mother aged 75. She is not dependent on Ms. Rekha. Premium paid by cheque Rs. 35,000.

Compute the total income and tax liability of Ms. Rekha for the AY 2023-24, considering the provisions of section 115BAC.

*Computation of total income of Ms. Rekha for AY 2023-24 (under regular provisions)*

Particulars	Rs.	Rs.	Rs.
<b>Income from house property</b>			
Arrears of rent: Taxable u/s 25A even if she is no more the owner of property		90,000	
Less: Deduction @ 30%		(27,000)	
			63,000
<b>Profits and gains of business or profession</b>			
Share of profit from firm: Exempt u/s 10(2A)		-	
Interest on capital: Taxable up to 12% (assuming it is allowed to the firm to this extent) = Rs. 3 lakh × (12/15)		2,40,000	
Salary as working partner: Taxable since fully allowed to the firm		1,00,000	
<b>Profit from rice mill</b>			
Net profit		4,50,000	
Add: Amounts debited but not deductible:			
• Advance income tax paid	1,00,000		
• Personal drawings	50,000	1,50,000	
Less: Amounts taxable under the head IFOS:			
• Interest on savings bank account with SBI	12,000		
• Interest on savings account with post office	5,000		
• Dividend from listed Indian company	80,000	(97,000)	
			8,43,000
<b>Income from other sources</b>			
Interest on savings bank account with SBI		12,000	
Interest on savings account with post office	5,000		
Less: Exempt u/s 10: Assuming account is individual	(3,500)	1,500	
Dividend from listed Indian company (assuming it is gross of TDS)		80,000	
			93,500
<b>Gross total income</b>			<b>9,99,500</b>
<i>Less: Deduction under Chapter VIA:</i>			
Section 80C: Life insurance premium for married daughter: Deductible up to 10% of sum assured		50,000	
Section 80D: Health insurance premium for mother aged 75 years (assumed she is resident and, thus, senior citizen): Allowed up to Rs. 50,000		35,000	
Section 80TTA: Interest on savings accounts of Rs. 13,500 deductible up to Rs. 10,000		10,000	
			(95,000)
<b>Total income</b>			<b>9,04,500</b>

*Computation of total income of Ms. Rekha for AY 2023-24 (under section 115BAC)*

Particulars	Rs.
Total income as per regular provisions	9,04,500
Add: Deductions under Chapter VIA blocked u/s 115BAC	95,000
<b>Total income u/s 115BAC</b>	<b>9,99,500</b>

*Computation of tax liability of Ms. Rekha for AY 2023-24*

Particulars	Regular rates	115BAC rates
Total income	9,04,500	9,99,500
Tax on total income	93,400	74,925
Less: Rebate u/s 87A (N/A as total income exceeds Rs. 5 lakh)	-	-
	93,400	74,925



Add: Surcharge (N/A as total income does not exceed 50 lakh)	-	-
	93,400	74,925
Add: HEC @ 4%	3,736	2,997
Tax liability	97,136	77,922
Less: TDS @ 10% u/s 194 on dividend from listed Indian company	(8,000)	(8,000)
Less: Advance tax paid	(1,00,000)	(1,00,000)
Tax refundable	(10,864)	(30,078)
<b>Tax refundable (rounded off)</b>	<b>(10,860)</b>	<b>(30,080)</b>
Ms. Rekha can opt for section 115BAC (she should also note the restrictive conditions of opting in/out of section 115BAC since she has income from business/profession). Tax refundable will be Rs. 30,080		

**B30. CA2016(NOV)** – Mr. Raghuvver, a resident individual aged 35 years, furnished the following information from his Profit & Loss account for the year ended 31.3.2023:

- The net profit was Rs. 6,50,000
- The following incomes were credited in the Profit & Loss account:
  - Interest on Government securities Rs. 25,000
  - Dividend from a foreign company Rs. 18,000
  - Gold coins worth Rs. 55,000 received as gift from his father
- Depreciation debited in the books of account was Rs. 85,000. Depreciation allowed as per Income Tax Act was Rs. 96,000.
- Interest on loan amounting to Rs. 68,000 was paid in respect of capital borrowed for the purchase of the new asset which has not been put to use till 31.3.2023.
- General expenses included:
  - An expenditure of Rs. 20,500 which was paid by a bearer cheque.
  - Compensation of Rs. 4,500 paid to an employee while terminating his services in business unit.

He contributed the following amounts by cheque:

- Rs. 45,000 in Sukanya Samridhi Scheme in the name of his minor daughter Alpa.
- Rs. 20,000 to the Swachh Bharat Kosh set up by the Central Government.
- Rs. 28,000 towards premium for health insurance and Rs. 2,500 on account of preventive health check up for self and his wife.
- Rs. 35,000 on account of medical expenses of his father aged 82 years (no insurance scheme has been availed on the health of his father).

You are required to compute the total income and tax liability of Mr. Raghuvver (considering section 115BAC) for AY 2023-24.

■ *Computation of total income of Mr. Ravhuvver for AY 2023-24 (under regular provisions)*

Particulars	Rs.	Rs.	Rs.
<b>Profits and gains of business or profession</b>			
Net profit as per Profit & Loss account		6,50,000	
<i>Less: Incomes credited but covered under the head IFOS:</i>			
Interest on Government securities	25,000		
Dividend from a foreign company	18,000		
Gift of gold coins	55,000	(98,000)	
		5,52,000	
Less: Adjustment for depreciation as per Income Tax Act (Rs. 96,000 – Rs. 85,000)		(11,000)	
		5,41,000	
<i>Add: Expenses debited but not deductible:</i>			
Interest till the asset is first put to use: Not allowed u/s 36(1)(iii) assuming it is debited.	68,000		
Expenditure > Rs. 10,000 paid by bearer cheque: Disallowed u/s 40A(3) assuming it is paid to a person in a day.	20,500		
Compensation paid to employee: Allowed u/s 37(1). No adjustment since already debited.	-	88,500	
			6,29,500
<b>Income from other sources</b>			
Interest on Government securities: Assumed not notified u/s 10(15); hence, taxable		25,000	
Dividend from foreign company (assumed not liable to tax deduction at source)		18,000	

Gift of gold coins from father: Not taxable u/s 56(2)(x) since received from a relative		-	
			43,000
<b>Gross total income</b>			<b>6,72,500</b>
<i>Less: Deduction under Chapter VIA (assumed that the below amounts were not debited to Profit &amp; Loss Account; hence, no adjustment has been made in computing PGBP)</i>			
Section 80C: Sukanya Samriddhi Scheme in the name of minor daughter		45,000	
Section 80D: Health insurance premium and preventive health checkup for self and wife: Rs. 30,500 allowed up to Rs. 25,000		25,000	
Section 80D: Medical expenditure of father (assumed he is resident and, thus, a senior citizen); allowed up to Rs. 50,000		35,000	
Section 80G: Donation to Swachh Bharat Kosh @ 100%		20,000	
			(1,25,000)
<b>Total income</b>			<b>5,47,500</b>

*Computation of total income of Mr. Raghuveer for AY 2023-24 (under section 115BAC)*

Particulars	Rs.
Total income as per regular provisions	5,47,500
Add: Deductions under Chapter VIA blocked u/s 115BAC	1,25,000
<b>Total income u/s 115BAC</b>	<b>6,72,500</b>

*Computation of tax liability of Mr. Raghuveer for AY 2023-24*

Particulars	Regular rates	115BAC rates
Total income	5,47,500	6,72,500
Tax on total income	22,000	29,750
Less: Rebate u/s 87A (N/A as total income exceeds Rs. 5 lakh)	-	-
	22,000	29,750
Add: Surcharge (N/A as total income does not exceed 50 lakh)	-	-
	22,000	29,750
Add: HEC @ 4%	880	1,190
<b>Tax liability</b>	<b>22,880</b>	<b>30,940</b>
Mr. Raghuveer should not opt for section 115BAC (he should also note the restrictive conditions of opting in/out of section 115BAC since he has income from business/profession). Tax liability will be Rs. 22,880		

**B31. CA2016(MAY)** – Mr. Vinod Kumar, resident aged 62 years, furnishes the following information pertaining to the year ended 31.3.2023:

Particulars	Rs.
Pension received (net of TDS)	6,27,000
Short term capital gains from sale of listed shares	65,000
Long term capital gains from sale of listed shares	1,24,000
Interest on fixed deposit from bank	1,60,000
<i>Pertaining to consultancy services provided by him:</i>	
• Gross receipts	12,60,000
• Rent for premises	1,44,000
• Salary of PA	1,20,000
• Stenographer's salary	1,00,000
• Business development expenditure	91,000
• Conveyance	3,00,000
Contribution to PPF	1,10,000
Premium on life insurance policy taken on 10.1.2023 (sum assured Rs. 5,00,000)	60,000
Mediclaime insurance premium for self (paid otherwise than by cash)	27,000
Preventive health checkup for self (in cash)	6,000
Donation given in cash to a charitable trust registered u/s 12AA (eligible for deduction u/s 80G)	14,000
Interest received from Post Office Savings A/c	18,000

*Additional information:*

- TDS from pension Rs. 25,000
- 1/4<sup>th</sup> of conveyance expenses is estimated for personal use

Compute the total income and tax liability of the assessee for AY 2023-24 under proper heads of income, considering section 115BAC. Listed shares were sold in recognized stock exchange.

■ *Computation of total income of Mr. Vinod Kumar for AY 2023-24 (under regular provisions)*

Particulars	Rs.	Rs.	Rs.
<b>Income from salary</b>			
Pension received: Gross of TDS = Rs. 6,27,000 + Rs. 25,000		6,52,000	
Less: Standard deduction u/s 16(ia)		(50,000)	
			6,02,000
<b>Profits and gains of business or profession</b>			
Gross receipts		12,60,000	
Less: Expenses:			
• Rent for premises: Deductible u/s 30	1,44,000		
• Salary of PA: Deductible u/s 37(1)	1,20,000		
• Stenographer's salary: Deductible u/s 37(1)	1,00,000		
• Business development expenditure: Deductible u/s 37(1)	91,000		
• Conveyance: Deductible u/s 37(1): 1/4 <sup>th</sup> for personal use disallowed	2,25,000	(6,80,000)	
			5,80,000
<b>Capital gains</b>			
Short term capital gain from sale of listed shares (u/s 111A)		65,000	
Long term capital gain from sale of listed shares (assuming STT paid on purchase and sale) (u/s 112A)		1,24,000	
			1,89,000
<b>Income from other sources</b>			
Interest on fixed deposit in bank		1,60,000	
Interest on Post Office Saving A/c	18,000		
Less: Exempt u/s 10(15) (assuming account is individual)	(3,500)	14,500	
			1,74,500
<b>Gross total income</b>			<b>15,45,500</b>
<i>Less: Deduction under Chapter VIA (not allowed from STCG/LTCG u/s 111A/112A)</i>			
<b>Section 80C:</b>			
• Life insurance premium: Allowed up to 10% of sum assured	50,000		
• Contribution to PPF	1,10,000		
Restricted to Rs. 1,50,000	1,60,000	1,50,000	
<b>Section 80D:</b>			
• Mediciam insurance premium for self (paid otherwise than by cash)	27,000		
• Preventive health checkup for self (in cash): Allowed up to Rs. 5,000	5,000		
Allowed up to Rs. 50,000 since Mr. Vinod is a senior citizen	32,000	32,000	
<b>Section 80G:</b> Donation given in cash to a charitable trust: Deduction is not allowed for donation > Rs. 2,000 in cash			-
<b>Section 80TTB:</b> Interest of Rs. 1,74,500 allowed up to Rs. 50,000		50,000	
			(2,32,000)
<b>Total income</b>			<b>13,13,500</b>

*Computation of total income of Mr. Vinod Kumar for AY 2023-24 (under section 115BAC)*

Particulars	Rs.
Total income as per regular provisions	13,13,500
Add: Allowance and deductions blocked u/s 115BAC:	
• Standard deduction u/s 16(ia)	50,000

• Deductions under Chapter VIA	2,32,000
<b>Total income u/s 115BAC</b>	<b>15,95,500</b>

## Computation of tax liability of Mr. Vinod Kumar for AY 2023-24

Particulars	Regular rates	115BAC rates
Total income	13,13,500	15,95,500
Tax on total income:		
On long term capital gain (exceeding Rs. 1 lakh) u/s 112A @ 10% of Rs. 24,000 (Rs. 1,24,000 – Rs. 1,00,000)	2,400	2,400
On short term capital gain u/s 111A @ 15% of Rs. 65,000	9,750	9,750
On balance income of Rs. 11,24,500 at regular rates and Rs. 14,06,500 at 115BAC rates	1,47,350	1,64,125
	1,59,500	1,76,275
Less: Rebate u/s 87A (N/A as total income exceeds Rs. 5 lakh)	-	-
	1,59,500	1,76,275
Add: Surcharge (N/A as total income does not exceed 50 lakh)	-	-
	1,59,500	1,76,275
Add: HEC @ 4%	6,380	7,051
Tax liability	1,65,880	1,83,326
Less: TDS from pension u/s 192. It is assumed that TDS was not deducted from interest on Bank FD u/s 194A.	(25,000)	(25,000)
Tax payable	1,40,880	1,58,326
<b>Tax payable (rounded off)</b>	<b>1,40,880</b>	<b>1,58,330</b>
Mr. Vinod should not opt for section 115BAC (he should also note the restrictive conditions of opting in/out of section 115BAC since he has income from business/profession). Tax payable will be Rs. 1,40,880.		

**B32. CA2015(MAY)** - Dr. Shashank is a noted child specialist of Mumbai. His Income & Expenditure Account for FY ended 31.3.2023 is given below:

Expenditure	Rs.	Income	Rs.
To Staff salary	2,78,000	By Fee receipts	16,76,000
To Administrative expenses	1,64,000	By Winning at TV game show (net of TDS)	35,000
To Medicine consumed	3,95,800	By LIC policy matured	1,15,000
To Consumables	57,500	By Honorarium for giving lectures at seminars	24,000
To Depreciation	1,25,000		
To Rent of clinic	1,20,000		
To Donation to National Children's Fund	51,000		
To Net profit	6,58,700		
	<b>18,50,000</b>		<b>18,50,000</b>

1. Depreciation computed as per Income Tax Rules, 1962 has been ascertained at Rs. 75,000.
  2. Medicines consumed include cost of medicine for self and family of Rs. 18,000 and for treating poor patients of Rs. 24,000 from whom he did not charge any fee either.
  3. Salary includes Rs. 30,000 paid in cash to a computer specialist who computerized his patient's data, on 30.9.2022 at 3 pm.
  4. Donation to National Children's Fund has been made by way of an account payee cheque.
  5. He has paid a sum of Rs. 25,000 for a Life Insurance Policy (sum assured Rs. 2,00,000) of himself, which was taken on 1.7.2017.
  6. He also contributed Rs. 1,20,000 towards PPF.
  7. Dr. Shashank also paid interest of Rs. 10,000 on loan taken for higher education of his daughter.
  8. He made investments in listed equity shares of Rs. 30,000 and units of equity oriented fund of Rs. 40,000.
  9. He also made donation of Rs. 1,00,000 to a charitable trust registered and eligible for deduction under the Act.
- You are required to compute the total income and tax payable, considering section 115BAC, by Dr. Shashank for AY 2023-24.



## Computation of total income of Dr. Shashank for AY 2023-24 (under regular provisions)

Particulars	Rs.	Rs.	Rs.
<b>Profits and gains of business or profession</b>			
Net profit as per Income & Expenditure A/c		6,58,700	
<i>Add: Expenses debited but not deductible:</i>			
Depreciation in excess of that allowed under Income Tax Act = Rs. 1,25,000 – Rs. 75,000	50,000		
Medicines consumed for self and family: Not allowed u/s 37(1) as it is personal expense	18,000		
Medicines for poor patients who he did not charge: Allowed u/s 37(1) as it can be said to be incurred for the purposes of business or profession	-		
Salary in cash to computer specialist: Disallowed u/s 40A(3) as amount paid to a person in a day is > 10,000	30,000		
Donation to National Children's Fund: Considered u/s 80G	51,000	1,49,000	
		8,07,700	
<i>Less: Income credited but not taxable or taxable under other heads:</i>			
Maturity proceeds of LIC policy: Covered under the head IFOS	1,15,000		
Winning from TV game show: Covered under the head IFOS	35,000		
Honorarium for giving lectures at seminars: Covered under the head IFOS	24,000	(1,74,000)	
Dr. Shashank can claim presumptive business income @ 50% of gross receipts of Rs. 16,76,000 u/s 44ADA, i.e., Rs. 8,38,000. He can also claim the lower amount of Rs. 6,33,700 if he maintains books u/s 44AA and gets tax audit done u/s 44AB.			6,33,700
<b>Income from other sources</b>			
Maturity proceeds of LIC policy: Exempt u/s 10(10D) assuming premium was within the limit specified therein			-
Winning from TV game show: Gross up for TDS u/s 194B = Rs. 35,000 × (100/70)		50,000	
Honorarium for giving lectures at seminars		24,000	
			74,000
<b>Gross total income</b>			<b>7,07,700</b>
<b>Less: Deduction under Chapter VIA:</b>			
<b>Section 80C:</b>			
For life insurance premium: Allowed up to 10% of sum assured	20,000		
For contribution to PPF	1,20,000	1,40,000	
Section 80E: Interest on loan taken for higher education of daughter (assuming the other conditions of deduction u/s 80E are fulfilled)		10,000	
<b>Section 80G:</b>			
For donation to National Children's Fund by A/c payee cheque (@ 100%)	51,000		
For donation to registered charitable trust (assuming it is not in cash) @ 50% but subject to the qualifying limit being 10% of adjusted total income (GTI Rs. 7,07,000 – Deduction u/c VIA except u/s 80G of Rs. 1,50,000) = 50% of 10% of Rs. 5,57,000 = Rs. 27,885.	27,885	78,885	
			(2,28,885)
<b>Total income</b>			<b>4,78,815</b>
<b>Total income (rounded off)</b>			<b>4,78,820</b>

## Computation of total income of Dr. Shashank for AY 2023-24 (under section 115BAC)

Particulars	Rs.
Total income as per regular provisions	4,78,815
Add: Deductions under Chapter VIA blocked u/s 115BAC	2,28,885
<b>Total income u/s 115BAC</b>	<b>7,07,700</b>

## Computation of tax liability of Dr. Shashank for AY 2023-24

Particulars	Regular rates	115BAC rates
Total income	4,78,820	7,07,700
Tax on total income:		
On winning from game show u/s 115BB @ 30% of Rs. 50,000	15,000	15,000

On balance income of Rs. 4,28,820 at regular rates and Rs. 6,57,700 at 115BAC rates	8,941	28,270
	23,941	43,270
Less: Rebate u/s 87A (where total income is not > 5 lakh)	(12,500)	-
	11,441	43,270
Add: Surcharge (N/A as total income does not exceed 50 lakh)	-	-
	11,441	43,270
Add: HEC @ 4%	458	1,731
Tax liability	11,899	45,001
Less: TDS from winning	(15,000)	(15,000)
Tax refundable/payable	(3,101)	30,001
<b>Tax refundable/payable (rounded off)</b>	<b>(3,100)</b>	<b>30,000</b>
Dr. Shashank should not opt for section 115BAC (he should also note the restrictive conditions of opting in/out of section 115BAC since he has income from business/profession). Tax refundable will be Rs. 3,100		

**B33. CA2013(NOV) (modified)** – Compute the total income and tax liability of Mr. Krishna for AY 2023-24 from the following particulars (considering provisions of section 115BAC):

Particulars	Rs.
Income from business before adjusting the following items:	1,75,000
• Business loss brought forward from AY 2021-22	70,000
• Current depreciation	40,000
• Unabsorbed depreciation of earlier year	1,55,000
Income from house property (gross annual value)	4,32,000
Municipal taxes paid	32,000
Mr. Krishna sold a plot at Noida on 12.9.2022 for a consideration of Rs. 6,40,000, which had been purchased by him on 20.12.2020 at a cost of Rs. 4,10,000.	
Long term capital loss on sale of shares sold through recognized stock exchange (STT paid)	75,000
Long term capital gain on sale of debentures	60,000
Dividend from a company carrying on agricultural business	32,000
During the PY 2022-23, Mr. Krishna has repaid Rs. 1,67,000 towards housing loan from a scheduled bank. Out of Rs. 1,67,000, Rs. 97,000 was towards payment of interest and rest towards principal payments.	

■ Computation of total income of Mr. Krishna for AY 2023-24 (under regular provisions)

Particulars	Rs.	Rs.	Rs.
<b>Income from house property</b>			
Gross annual value		4,32,000	
Less: Municipal taxes paid		(32,000)	
Net annual value		4,00,000	
Less: Deduction u/s 24:			
Standard deduction @ 30% of NAV		(1,20,000)	
Interest on borrowed capital		(97,000)	
			1,83,000
<b>Profits and gains of business or profession</b>			
Income from business		1,75,000	
Less: Set off:			
Current year depreciation u/s 32		(40,000)	
Business loss brought forward from AY 2021-22 u/s 72		(70,000)	
Unabsorbed depreciation of earlier year u/s 32(2) (balance of Rs. 90,000 (1,55,000 – 65,000) can be set off against other incomes)		(65,000)	
			-
<b>Capital gains</b>			
Long term capital gain on sale of debentures	60,000		
Long term capital loss on sale of shares sold through recognized stock exchange (STT paid): Set	(60,000)	Nil	

off u/s 70; balance of Rs. 15,000 (75,000 – 60,000) is carried forward u/s 74 to AY 2024-25.			
Short term capital gain on sale of plot (as period of holding is not > 24 months):			
Full value of consideration (assuming it complies with section 50C)	6,40,000		
Less: Cost of acquisition	(4,10,000)	2,30,000	
Less: Set off balance unabsorbed depreciation		(90,000)	
			1,40,000
<b>Income from other sources</b>			
Dividend from a company carrying on agricultural business (assuming it is paid by domestic company and is gross of TDS u/s 194)			32,000
<b>Gross total income</b>			<b>3,55,000</b>
Less: Deduction u/s 80C – Repayment of housing loan (assuming loan was taken for acquisition or construction of residential house property)			(70,000)
<b>Total income</b>			<b>2,85,000</b>

*Computation of total income of Mr. Krishna for AY 2023-24 (under section 115BAC)*

Particulars	Rs.
Total income as per regular provisions	2,85,000
Add: Deductions under Chapter VIA blocked u/s 115BAC:	70,000
<b>Total income u/s 115BAC</b>	<b>3,55,000</b>

It is assumed that brought forward loss or unabsorbed depreciation is not attributable to any of the deductions not allowed u/s 115BAC. Hence, these are not blocked.

*Computation of tax liability of Mr. Krishna for AY 2023-24*

Particulars	Regular rates	115BAC rates
Total income	2,85,000	3,55,000
Tax on total income	1,750	5,250
Less: Rebate u/s 87A (as total income is not > 5 lakh)	(1,750)	(5,250)
	Nil	Nil
Add: Surcharge (N/A as total income is not > 50 lakh)	-	-
	Nil	Nil
Add: HEC @ 4%	-	-
<b>Tax liability</b>	<b>Nil</b>	<b>Nil</b>
Less: TDS u/s 194 @ 10% on dividend (assuming TDS is applicable)	(3,200)	(3,200)
<b>Tax refundable</b>	<b>(3,200)</b>	<b>(3,200)</b>

Mr. Krishna should not opt for section 115BAC since there is no impact on tax liability (he should also note the restrictive conditions of opting in/out of section 115BAC since he has income from business/profession). Tax refundable will be Rs. 3,200.

**B34. CA2013(NOV)** – The following is the Profit & Loss Account of Mr. Aditya, aged 58 years, a resident, for the year ended 31.3.2023:

Particulars	Rs.	Particulars	Rs.
Rent	6,00,000	Gross profit	18,50,000
Repair of car	30,000	Gift of cash from a friend (received on 15.9.2022)	2,50,000
Personal expenses	50,000	Sale of car	1,70,000
Medical expenses	45,000	Interest on income tax refund	30,000
Salary	1,80,000		
Depreciation on car	30,000		
Advance income tax	15,000		
Net profit	13,50,000		
	<b>23,00,000</b>		<b>23,00,000</b>

Other information:

- Aditya bought a car during the year for Rs. 2,00,000. He charged depreciation @ 15% on the value of the car. The above car was sold during the year for Rs. 1,70,000. The use of car was 3/4<sup>th</sup> for business and 1/4<sup>th</sup> for personal use.
- Medical expenses were incurred for the treatment of his wife.

3. Salary had been paid on account of car driver.
4. Rent includes arrears of rent from April 2022 to October 2022 @ Rs. 50,000 p.m. paid in cash on 1.11.2022.
5. Mr. Aditya had also let out a house property at a monthly rent of Rs. 25,000. The annual letting value is considered to be Rs. 2,50,000. The municipal taxes are Rs. 6,000 out of which Rs. 3,000 are paid by the tenant and Rs. 3,000 are yet to be paid by Mr. Aditya. Interest on loan taken for the house property is Rs. 20,000.
6. Mr. Aditya's minor daughter received Rs. 75,000 from stage acting. Interest on company deposits of his daughter (deposit was made out of income from stage acting) was Rs. 10,000.
7. Aditya incurred an expense of Rs. 50,000 on medical treatment of his dependent son, who has disability of more than 80%.
8. Aditya had taken a loan during the year 2022-23 for the education of his son, who is pursuing B.Com in Delhi University. Interest paid on the same during the year was Rs. 10,000.

Compute the total income and tax liability of Mr. Aditya for AY 2023-24, considering section 115BAC.

■ Computation of total income of Mr. Aditya for AY 2023-24 (under regular provisions)

Particulars	Rs.	Rs.	Rs.
<b>Income from house property</b>			
Gross annual value: Higher of actual rent Rs. 3,00,000 or annual letting value Rs. 2,50,000		3,00,000	
Less: Municipal taxes actually paid by owner		Nil	
Net annual value		3,00,000	
Less: Deduction u/s 24:			
• Standard deduction @ 30% of NAV		(90,000)	
• Interest on capital borrowed		(20,000)	
			1,90,000
<b>Profits and gains of business or profession</b>			
Net profit		13,50,000	
<i>Add: Expenses debited not deductible:</i>			
Arrears of rent paid in cash: Disallowed u/s 40A(3) as amount paid to a person in a day is > Rs. 10,000 = Rs. 50,000 × 7 months	3,50,000		
Repair of car: 1/4 <sup>th</sup> on account of personal use	7,500		
Personal expenses	50,000		
Medical expenses incurred for wife: Personal expenses	45,000		
Salary of car driver: 1/4 <sup>th</sup> on account of personal use of car	45,000		
Depreciation of car: Not allowed since car is sold during the year and block of asset ceases to exist as on 31.3.2023	30,000		
Advance income tax: Not allowed u/s 40(a)(ii)	15,000	5,42,500	
		18,92,500	
<i>Less: Items credited but taxable under other heads:</i>			
• Gift from friend	2,50,000		
• Sale of car	1,70,000		
• Interest on income tax refund	30,000	(4,50,000)	
			14,42,500
<b>Capital gain</b>			
Full value of consideration on sale of car		1,70,000	
Less: Cost of acquisition		2,00,000	
Short term capital loss: Carried forward u/s 74		(30,000)	-
<b>Income from other sources</b>			
Interest on income tax refund		30,000	
Cash gift from friend: Taxable u/s 56(2)(x) since aggregate is > Rs. 50,000		2,50,000	
Income from minor daughter from stage acting: Not clubbed u/s 64(1A) since it is from talent and skill	-		
Interest on deposits made out of income from stage acting: Clubbed u/s 64(1A), assuming total income of Aditya, before such clubbing, is higher than that of his spouse	10,000		
Less: Exemption u/s 10(32)	(1,500)	8,500	



			2,88,500
<b>Gross total income</b>			<b>19,21,000</b>
Less: Deduction under Chapter VIA:			
80DD: Medical treatment of dependent son (assuming son has not claimed deduction u/s 80U) suffering from severe disability (80% or more)		1,25,000	
80E: Interest on loan for higher education of son (assumed loan is taken from a bank or notified financial institution or approved charitable institution)		10,000	
			(1,35,000)
<b>Total income</b>			<b>17,86,000</b>

*Computation of total income of Mr. Aditya for AY 2023-24 (under section 115BAC)*

Particulars	Rs.
Total income as per regular provisions	17,86,000
Add: Allowance and deductions blocked u/s 115BAC:	
• Exemption u/s 10(32)	1,500
• Deductions under Chapter VIA	1,35,000
<b>Total income u/s 115BAC</b>	<b>19,22,500</b>

*Computation of tax liability of Mr. Aditya for AY 2023-24*

Particulars	Regular rates	115BAC rates
Total income	17,86,000	19,22,500
Tax on total income	3,48,300	3,14,250
Less: Rebate u/s 87A (N/A since total income is > Rs. 5 lakh)	-	-
	3,48,300	3,14,250
Add: Surcharge (N/A as total income is not > 50 lakh)	-	-
	3,48,300	3,14,250
Add: HEC @ 4%	13,932	12,570
Tax liability	3,62,232	3,26,820
Less: Advance tax paid	(15,000)	(15,000)
Tax payable	3,47,232	3,11,820
<b>Tax payable (rounded off)</b>	<b>3,47,230</b>	<b>3,11,820</b>

Mr. Aditya can opt for section 115BAC (he should also note the restrictive conditions of opting in/out of section 115BAC since he has income from business/profession). Tax payable will be Rs. 3,11,820

**B35. CA2012(NOV) – Mr. Hari provides the following information for the year ending 31.3.2023:**

Particulars	Rs.
Rent from vacant site let on lease	1,12,000
Rent from house property in Delhi	20,000 pm
Turnover from retail trade in grains (no books of account maintained)	24,37,500
Arrears of salary received from ex employer	80,000
Purchase of 10,000 shares of X Co. Ltd. on 1.1.2014	1,00,000
He received a 1:1 bonus on 1.1.2015 from X Co. Ltd. Sale of 5,000 bonus shares in September 2022	2,20,000
Brought forward business loss relating to discontinued textile business of Hari relating to AY 2020-21	1,97,500
Brought forward depreciation relating to discontinued textile business of Hari	1,50,000
Hari contributed Rs. 30,000 to Prime Minister's National Relief Fund and Rs. 40,000 to charitable trust enjoying exemption u/s 80G	

Compute the total income and tax thereon of Mr. Hari for AY 2022-23, considering the provisions section 115BAC.

■

*Computation of total income of Mr. Hari for AY 2023-24 (under regular provisions)*

Particulars	Rs.	Rs.
<b>Income from salaries</b>		
Arrears of salary received from ex employer (assuming it was not taxed earlier on due basis)	80,000	
Less: Standard deduction u/s 16(ia)	(50,000)	

		30,000
<b>Income from house property</b>		
Annual value (rent is taken in absence of information regarding expected rent)	2,40,000	
Less: Standard deduction u/s 24(a) @ 30% of NAV	(72,000)	
		1,68,000
<b>Profits and gains of business or profession</b>		
Income from retail trade in grains: Books of account are not maintained and turnover is not > Rs. 2 crore. Presumptive business income can be claimed u/s 44AD @ 6% of turnover assuming it is received by specified modes during the PY 2022-23 or before the due date to furnish return of such PY.	1,46,250	
Less: Brought forward business loss u/s 72: Continuation of business in which loss is incurred is not necessary in the year of set off. Balance loss is carried forward u/s 72	(1,46,250)	
		-
<b>Capital gains</b>		
Full value of consideration of bonus shares	2,20,000	
Less: Cost of acquisition	Nil	
Long term capital gain u/s 112 (assumed shares are not listed)	2,20,000	
Less: Set off brought forward unabsorbed depreciation against income under other heads (except salary) u/s 32(2). <sup>8</sup>	(1,50,000)	70,000
<b>Income from other sources</b>		
Rent from vacant site let on lease		1,12,000
<b>Gross total income</b>		<b>3,80,000</b>
Less: Deduction u/s 80G:		
Donation to PM National Relief Fund (@ 100%)	30,000	
Donation to charitable trust of Rs. 40,000: Deductible @ 50% but subject to qualifying limit being 10% of adjusted total income (GTI Rs. 3,80,000 – LTCG u/s 112 Rs. 70,000) = 50% of 10% of Rs. 3,10,000.	15,500	
		(45,500)
<b>Total income</b>		<b>3,34,500</b>

*Computation of total income of Mr. Hari for AY 2023-24 (under section 115BAC)*

Particulars	Rs.
Total income as per regular provisions	3,34,500
Add: Allowance and deductions blocked u/s 115BAC:	
• Standard deduction u/s 16(ia)	50,000
• Deductions under Chapter VIA	45,500
<b>Total income u/s 115BAC</b>	<b>4,30,000</b>

It is assumed that losses of earlier years are not attributable to any of the deductions not allowed u/s 115BAC. Hence, these are not blocked.

*Computation of tax liability of Mr. Hari for AY 2023-24*

Particulars	Regular rates	115BAC rates
Total income	3,34,500	4,30,000
Tax on total income:		
Tax on LTCG u/s 112 @ 20% of Rs. 70,000	14,000	14,000
Tax on balance income of Rs. 2,64,500 at regular rates and Rs. 3,60,000 at 115BAC rates	725	5,500
	14,725	19,500
Less: Rebate u/s 87A (available since total income is not > Rs. 5 lakh)	(12,500)	(12,500)
	2,225	7,000
Add: Surcharge (N/A as total income is not > 50 lakh)	-	-
	2,225	7,000

<sup>8</sup> While section 44AD deems depreciation to have been fully allowed, unabsorbed depreciation is not in respect of retail trade in grains, and, hence, it is not deemed to have been allowed and can be set off. Since income (other than LTCG) is taxable at a lower rate than LTCG, it is beneficial to set off unabsorbed depreciation against LTCG.

Add: HEC @ 4%	89	280
Tax liability (relief u/s 89 w.r.t. arrears of salary has not been worked out in absence of relevant details)	2,314	7,280
<b>Tax liability (rounded off)</b>	<b>2,310</b>	<b>7,280</b>
Mr. Hari should not opt for section 115BAC (he should also note the restrictive conditions of opting in/out of section 115BAC since he has income from business/profession). Tax liability will be Rs. 2,310.		

**B36.** From the following details, compute the total income and tax liability of Ram and Shyam, citizens of India, for AY 2023-24 in a manner which is most beneficial. Both are 61 years of age. While Ram is a resident in India residing in Delhi, Shyam is a non-resident residing in USA.

Particulars	Ram	Shyam
Pension received from Central Government in Delhi	72,000	-
Pension received from US Government in US	-	1,20,000
Rent from house property in Chennai	60,000	60,000
Long term capital gain on sale of vacant land situated in Mumbai	1,00,000	1,00,000
Short term capital gain on sale of units of Indian equity oriented fund (STT paid on sale)	1,50,000	1,50,000
Deposit in PPF for major child (not dependent)	50,000	1,00,000
Life insurance premium paid for spouse (not dependent) @ 10% of sum assured	30,000	30,000
Donation to Clean Ganga Kosh	10,000	10,000
Interest on fixed deposits with ICICI Bank in India	2,00,000	60,000

■ Computation of total income of Ram and Shyam for AY 2023-24 (under regular provisions)

Particulars	Ram (resident)	Shyam (NR)
<b>Income from salaries</b>		
Pension	72,000	-
Less: Standard deduction u/s 16(ia)	(50,000)	-
	22,000	-
<b>Income from house property</b>		
Annual value: Rent is taken in absence of information on expected rent	60,000	60,000
Less: Standard deduction u/s 24(a) @ 30%	(18,000)	(18,000)
	42,000	42,000
<b>Capital gains</b>		
Long term capital gain u/s 112 on sale of vacant land situated in Mumbai	1,00,000	1,00,000
Short term capital gain u/s 111A on sale of units of equity oriented fund (STT paid on sale)	1,50,000	1,50,000
	2,50,000	2,50,000
<b>Income from other sources</b>		
Interest on fixed deposits with ICICI Bank in India	2,00,000	60,000
<b>Gross total income</b>	<b>5,14,000</b>	<b>3,52,000</b>
Less: Deduction under Chapter VIA:		
Section 80C: Deposit in PPF and life insurance premium	80,000	1,30,000
Section 80G: Donation to Clean Ganga Kosh (@ 100%): Available only to a resident	10,000	-
Section 80TTB: Interest on fixed deposits: Available only to a resident: Up to 50,000.	50,000	-
	1,40,000	1,30,000
Deductions not allowed from STCG u/s 111A and LTCG u/s 112)	1,40,000	1,02,000
<b>Total income</b>	<b>3,74,000</b>	<b>2,50,000</b>

## Computation of total income of Ram and Shyam for AY 2023-24 (under section 115BAC)

Particulars	Ram (resident)	Shyam (non resident)
Total income as per regular provisions	3,74,000	2,50,000
Add: Allowance and deductions blocked u/s 115BAC:		
• Standard deduction u/s 16(ia)	50,000	-
• Deductions under Chapter VIA	1,40,000	1,02,000
<b>Total income u/s 115BAC</b>	<b>5,64,000</b>	<b>3,52,000</b>

## Computation of tax liability of Ram for AY 2023-24

Particulars	Regular	115BAC
Total income	3,74,000	5,64,000
Tax on total income:		
Unexhausted basic exemption limit (UBEL) = Basic exemption limit – Normal income, i.e., excluding capital gain = 3,00,000 – 1,24,000 = 1,76,000.	1,76,000	-
<b>Regular provisions:</b> Tax on LTCG u/s 112 @ 20% on Nil (1,00,000 LTCG – 1,00,000 UBEL) = Nil. It is better to first exhaust UBEL against LTCG u/s 112 since it is taxable at rate higher than STCG u/s 111A. <b>115BAC:</b> Tax on LTCG u/s 112 @ 20% on 1,00,000.	-	20,000
<b>Regular provisions:</b> Tax on STCG u/s 111A @ 15% on 74,000 (1,50,000 STCG – 76,000 balance UBEL) = 11,100. <b>115BAC:</b> Tax on STCG u/s 111A @ 15% on 1,50,000 = 22,500.	11,100	22,500
Tax on balance income, i.e., on Rs. 1,24,000 at regular rates and on Rs. 3,14,000 at 115BAC rates	-	3,200
	11,100	45,700
Less: Rebate u/s 87A (where total income is not > 5 lakh)	(11,100)	-
	-	45,700
Add: Surcharge (N/A as total income is not > 50 lakh)	-	-
	-	45,700
Add: HEC @ 4%	-	1,828
Tax liability	-	47,528
<b>Tax liability (rounded off)</b>	-	<b>47,530</b>
Ram should not opt for section 115BAC. Tax liability will be Nil		

## Computation of tax liability of Shyam for AY 2023-24

Particulars	Regular	115BAC
Total income	2,50,000	3,52,000
Tax on total income:		
Tax on LTCG u/s 112 @ 20% on Rs. 1,00,000 (benefit of unexhausted BEL is not available to non-resident)	20,000	20,000
Tax on STCG u/s 111A @ 15% on Rs. 1,50,000 (benefit of unexhausted BEL is not available to non-resident)	22,500	22,500
Tax on balance income: On Nil income at regular rates and on Rs. 1,02,000 at 115BAC rates	-	-
	42,500	42,500
Less: Rebate u/s 87A (not available to a non-resident)	-	-
	42,500	42,500
Add: Surcharge (N/A as total income is not > 50 lakh)	-	-
	42,500	42,500
Add: HEC @ 4%	1,700	1,700
<b>Tax liability</b>	<b>44,200</b>	<b>44,200</b>
Tax liability will remain same with or without section 115BAC. Tax liability will be Rs. 44,200.		

# MCQ

## METHOD OF COMPUTATION

**M1.** Gross total income is computed before giving effect to which of the following?

- |                                 |  |
|---------------------------------|--|
| (a) Clubbing of income          | (b) Adjustment of losses                     |
| (c) Deduction under Chapter VIA | (d) Deductions under various heads of income |

**M2.** What is the correct sequence of adjustments required to be made while computing tax liability?

- |   |   |
|---|---|
| (a) Rebate u/s 87A, HEC, Surcharge, prepaid taxes | (b) Rebate u/s 87A, Surcharge, HEC, prepaid taxes |
| (c) Prepaid taxes, rebate u/s 87A, Surcharge, HEC | (d) Surcharge, HEC, rebate u/s 87A, prepaid taxes |

**M3.** What is required to be rounded off?

- |                  |                               |
|------------------|-------------------------------|
| (a) Total income | (b) Tax payable or refundable |
| (c) A and B      | (d) Only tax payable          |

**M4.** Raju, a resident of age 56 years, is having total income of Rs. 5,00,000 (comprising business income). Tax of Rs. 4,000 has been deducted at source and he has paid Rs. 10,000 as advance tax. Compute his net tax payable or refundable for AY 2023-24, ignoring the provisions of section 115BAC.

- |                              |                               |
|------------------------------|-------------------------------|
| (a) Nil                      | (b) Tax refundable Rs. 14,000 |
| (c) Tax refundable Rs. 4,000 | (d) Tax refundable Rs. 1,500  |

**M5.** Suresh, a resident of age 65 years, has total income of Rs. 60,00,000 (including winning from lottery of Rs. 1,00,000). He has paid TDS on lottery prize @ 30%. Compute the net tax payable for AY 2023-24, ignoring the provisions of section 115BAC.

- |                   |                   |
|-------------------|-------------------|
| (a) Rs. 17,71,000 | (b) Rs. 16,44,400 |
| (c) Rs. 18,41,840 | (d) Rs. 18,11,840 |

## ALTERNATE MINIMUM TAX (AMT)

**M6.** Which of the following is not a condition for AMT provisions to apply to an individual?

- |  |  |
|--|--|
| (a) He should not opt for section 115BAC | (b) His adjusted total income should exceed Rs. 20 lakh                                  |
| (c) He should not be a non resident      | (d) He should not claim deduction u/c VIA-C (other than section 80P) or u/s 10AA or 35AD |

**M7.** What should be added back to the total income to arrive at the adjusted total income for the purpose of AMT?

- |  |   |
|--|---|
| (a) Interest on borrowed capital u/s 24(b) | (b) Deductions u/c VIA  |
| (c) Losses set off                         | (d) Deductions u/c VIA-C (other than section 80P) or u/s 10AA or 35AD |

**M8.** Which of the following is not true in respect of AMT credit?

- |   |  |
|---|--|
| (a) A person can set off AMT credit against tax liability computed u/s 115BAC | (b) AMT credit can be set off in the year in which regular tax exceeds AMT |
| (c) Carry forward of AMT credit is allowed till 15 years                      | (d) No interest is payable on AMT credit                                   |

**M9.** Mr. K, a resident individual aged 35 years, having gross total income of Rs. 30 lakh, has claimed deduction u/s 80QCB of Rs. 3 lakh. He has not opted for section 115BAC. AMT credit of AY 2022-23 carried forward is Rs. 1,00,000. Compute his tax liability for AY 2023-24.

- |              |              |
|--------------|--------------|
| (a) 6,47,400 | (b) 5,77,200 |
| (c) 5,77,200 | (d) 5,47,400 |

**M10.** Mr. J is a resident individual aged 65 years carrying on business. His business income (computed) is Rs. 10 lakh, after claiming deduction of Rs. 25 lakh u/s 35AD. Had he not claimed deduction u/s 35AD, depreciation of Rs. 5 lakh would have been allowable. He has not opted for section 115BAC. AMT credit brought of AY 2022-23 carried forward is Rs. 1,00,000. Compute his tax liability for AY 2023-24.

- |              |              |
|--------------|--------------|
| (a) 6,73,400 | (b) 4,77,200 |
| (c) 1,14,400 | (d) 5,77,200 |

**M11.** Mr. Q is a resident individual aged 40 years having gross total income of Rs. 25 lakh. He has claimed deduction of Rs. 5 lakh u/s 80JJAA and Rs. 3 lakh u/s 80RRB. Gross total income includes long term capital gain from sale of gold of Rs. 2 lakh. He has not opted for section 115BAC. Compute his tax liability for AY 2023-24 and AMT credit available, if any.

- |   |   |
|---|---|
| (a) Tax liability 4,81,000; AMT credit 1,66,400 | (b) Tax liability 4,84,120; AMT credit 1,69,520 |
| (c) Tax liability 3,14,600; AMT credit 1,66,400 | (d) Tax liability 4,84,120; AMT credit 1,66,400 |

**M12.** Mrs. Y, a resident individual aged 55 years, has earned business income of Rs. 45 lakh and income from other sources Rs. 10 lakh. She has claimed the following deductions: Rs. 1.5 lakh u/s 80C, Rs. 50,000 u/s 80D and Rs. 3 lakh u/s 80RRB. Income from other sources includes Rs. 3 lakh from card games. She has not opted for section 115BAC. Compute her tax liability for AY 2023-24.

- |               |               |
|---------------|---------------|
| (a) 11,21,690 | (b) 10,19,720 |
| (c) 13,65,000 | (d) 10,55,600 |

### CONCESSIONAL RATE OF TAX FOR INDIVIDUAL AND HUF

**M13.** Concessional rate of tax u/s 115BAC is:

- |                                      |   |
|--------------------------------------|---|
| (a) Mandatory for individual and HUF | (b) Optional for all persons                      |
| (c) Optional for individual and HUF  | (d) Optional only for resident individual and HUF |

**M14.** Tax rate slab is same for regular rates and section 115BAC rates for total income exceeding:

- |                   |                   |
|-------------------|-------------------|
| (a) Rs. 5,00,000  | (b) Rs. 7,50,000  |
| (c) Rs. 10,00,000 | (d) Rs. 15,00,000 |

**M15.** Basic exemption limit u/s 115BAC is:

- |   |   |
|---|---|
| (a) Rs. 2,50,000 for all individuals and HUFs | (b) Rs. 3,00,000 for senior citizen           |
| (c) Rs. 5,00,000 for super senior citizen     | (d) Rs. 3,00,000 for all individuals and HUFs |

**M16.** Which of the following does not apply to the tax computed u/s 115BAC?

- |                    |  |
|--------------------|--|
| (a) Rebate u/s 87A | (b) Surcharge on tax on dividend and capital gains u/s 111A and 112A without any cap on the rate |
| (c) HEC            | (d) Special tax rates for capital gain and winnings  |

**M17.** For levy of tax u/s 115BAC, which of the following is allowed in computing total income?

- |   |  |
|---|--|
| (a) Exemption for HRA                                 | (b) Standard deduction from salary         |
| (c) Interest on capital borrowed for let out property | (d) Standard deduction from family pension |

**M18.** For levy of tax u/s 115BAC, which of the following is not allowed in computing total income?

- |  |  |
|--|--|
| (a) Normal depreciation  | (b) Additional depreciation                              |
| (c) Exemption for conveyance allowance spent for official purposes | (d) Deduction u/s 80JJAA for employment of new employees |

**M19.** For levy of tax u/s 115BAC, which of the following is not allowed in computing total income?

- |   |  |
|---|--|
| (a) Standard deduction u/s 24(a) in computing IHP                 | (b) In house expenditure on scientific research                            |
| (c) Deduction u/s 35 for donation to scientific research entities | (d) Exemption for tea/snacks provided by the employer during working hours |

**M20.** For levy of tax u/s 115BAC, which of the following is allowed in computing total income?

- |   |  |
|---|--|
| (a) Exemption for children education/hostel allowance | (b) Exemption of Rs. 1,500 for income of minor child clubbed with the income of the parent |
| (c) Deduction for employer's contribution to NPS      | (d) Deduction for employee's contribution to NPS   |

**M21.** While computing total income u/s 115BAC, normal depreciation on WDV of a block of assets cannot exceed the rate of 30%.

- |          |           |
|----------|-----------|
| (a) True | (b) False |
|----------|-----------|

**M22.** A person exercising option u/s 115BAC is not liable to AMT u/s 115JC.

- |          |           |
|----------|-----------|
| (a) True | (b) False |
|----------|-----------|

**M23.** Jugal, a businessman and also having income from salary, opted for section 115BAC for AY 2023-24. He opted for regular provisions in AY 2024-25. He wants to again opt for section 115BAC in AY 2025-26. Which of the following options is available to him for AY 2025-26?

- |   |   |
|---|---|
| (a) He cannot opt   | (b) He can opt if he ceases to have business income in AY 2025-26 |
| (c) He can opt even if he continues to have business income in AY 2025-26 | (d) None of the above   |

**M24.** Rahul, a salaried employee and not having business income, opts for section 115BAC for AY 2023-24. He opted out of section 115BAC for AY 2024-25. Which of the following options are available to him for AY 2025-26?

- |  |   |
|--|---|
| (a) He cannot opt again  | (b) He can opt only if did not fail to comply with the conditions of section 115BAC in AY 2023-24 |
| (c) He can opt even if he failed to comply with the conditions of section 115BAC in AY 2023-24 | (d) None of the above   |

**M25.** Suyash, a resident aged 50 years, draws basic salary of Rs. 40,000 per month and has earned interest on savings account with IDBI Bank of Rs. 50,000. Compute his tax liability for AY 2023-24, considering the provisions which are most beneficial to him.

- (a) Nil (b) 16,120  
(c) 15,080 (d) 13,040

**M26.** Rishabh, a resident aged 35 years, has business income (computed) of Rs. 20,00,000, loss from house property (on account of interest on loan for self-occupied house) of Rs. 2,00,000 and long-term capital gain on sale of gold of Rs. 3,00,000. He has deposited Rs. 1,00,000 each in PPF and Sukanya Samriddhi accounts. Compute his tax liability for AY 2023-24, considering provisions which are most beneficial to him (assuming he would opt for section 115BAC if it lowers his tax liability for AY 2023-24).

- (a) 4,13,400 (b) 3,82,200  
(c) 3,51,000 (d) 3,66,600

**M27.** Gaurav, aged 32 years is employed with BCD Ltd. Income from salary (computed) is Rs. 40 lakh. He has also earned short term capital gain on sale of equity shares (STT paid) of Rs. 5 lakh. Compute his tax liability for AY 2023-24, considering the provisions which are most beneficial to him.

- (a) 11,31,000 (b) 10,53,000  
(c) 10,68,600 (d) 11,56,000

**M28.** Sushi, resident of age 65 years, has the following incomes during the PY 2022-23: Basic salary received Rs. 12,00,000; HRA received Rs. 3,00,000 (Rs. 2,50,000 is exempt), loss from let out house property Rs. 3,00,000, family pension Rs. 60,000, interest from debentures of Rs. 51,500 earned by minor child out of money gifted by Sushi, medical insurance premium paid for self and spouse (63 years) Rs. 60,000. Compute her tax liability for AY 2023-24, considering the provisions which are most beneficial to her.

- (a) 1,45,990 (b) 1,45,600  
(c) 2,29,790 (d) 1,02,960

**M29.** Juhi, age 36 years, has earned income from salary of Rs. 9,00,000 (computed) for the PY 2022-23. She has claimed the following deductions: Rs. 1,00,000 u/s 80CCD(2) for employer's contribution to NPS, Rs. 1,00,000 for own contribution to NPS u/s 80CCD(1), additional deduction of Rs. 50,000 u/s 80CCD(1B) for own contribution to NPS. She has deposited Rs. 1,00,000 in PPF. Compute her tax liability for AY 2023-24, considering the provisions which are most beneficial to her.

- (a) 46,800 (b) 39,000  
(c) 33,800 (d) 37,500

**M30.** Rana, a resident age 40 years and carrying on a business, has computed business income for the PY 2022-23 of Rs. 30 lakh. He has further claimed deduction of Rs. 2 lakh u/s 80JJA and Rs. 3 lakh u/s 80G. Compute his tax liability for AY 2023-24, considering provisions of AMT and section 115BAC, in a manner which is most beneficial to him (assuming he would opt for section 115BAC if it lowers his tax liability).

- (a) 6,00,600 (b) 5,19,480  
(c) 5,75,000 (d) 5,85,000

**M31.** Srishti, a resident age 46 years, has the following particulars of income for AY 2023-24: Business income Rs. 20,00,000 (after claiming deduction of Rs. 10,00,000 u/s 35AD). Assets on which deduction u/s 35AD is claimed are otherwise eligible for normal depreciation of Rs. 1,00,000. She has also claimed deduction of Rs. 2,00,000 u/s 80RRB and Rs. 1,00,000 u/s 80C. Compute her tax liability for AY 2023-24, considering the provisions of AMT and section 115BAC, in a manner which is most beneficial to her (assuming she would opt for section 115BAC if it lowers her tax liability for AY 2023-24).

- (a) 5,38,720 (b) 3,35,400  
(c) 6,31,800 (d) 4,67,200

## Answer Key for MCQs

M1 C; M2 B; M3 C; M4 B; M5 D; M6 C; M7 D; M8 A; M9 C; M10 D; M11 A; M12 C; M13 C; M14 D; M15 A; M16 B; M17 C; M18 B; M19 C; M20 C; M21 B; M22 A; M23 B; M24 C; M25 A; M26 B; M27 C; M28 D; M29 C; M30 D; M31 A

## Hints to MCQ answers

**M1.** Deductions under Chapter VIA are allowed from gross total income.

**M4.** Tax on total income of 12,500 – rebate u/s 87A of 12,500 = Nil. Tax refundable = Nil – 14,000 prepaid taxes = 14,000

**M5.** Tax on total income = 15,80,000 on normal income + 30,000 on winning = 16,10,000. Tax of 16,10,000 + SC @ 10% of 1,61,000 = 17,71,000. 17,71,000 + HEC @ 4% of 70,840 = 18,41,840. Net tax payable = 18,41,840 – TDS of 30,000 = 18,11,840

**M9.** Total income = 30,00,000 GTI – 3,00,000 deduction u/s 80QQB = 27,00,000. // Regular tax on total income = 6,47,400. // Adjusted total income = 27,00,000 total income + 3,00,000 deduction u/s 80QQB = 30,00,000. // AMT @ 18.5% (plus 4% HEC) = 5,77,200. AMT is not payable as regular tax is not less than AMT. // Regular Tax – AMT = 70,200. Tax liability = 6,47,400 regular tax – 70,200 AMT credit brought forward = 5,77,200. Balance AMT credit of 29,800 is carried forward to next AY.

**M10.** Total income = 10,00,000. Regular tax on total income = 1,14,400. // Adjusted total income = 10,00,000 total income + 25,00,000 deduction u/s 35AD – 5,00,000 depreciation if deduction u/s 35AD is not allowed = 30,00,000. // AMT @ 18.5% (plus HEC @ 4%) = 5,77,200. // AMT is payable as regular tax is < AMT. AMT credit (brought forward + that of current year) is carried forward to the next year.

**M11.** Total income = 25,00,000 GTI – 8,00,000 deduction u/s 80JJAA and 80RRB = 17,00,000. // Regular tax = Tax on LTCG (@ 20%) 40,000 + Tax on balance income 2,62,500 = 3,02,500. Tax of 3,02,500 + 12,100 HEC @ 4% = 3,14,600. // Adjusted total income = 17,00,000 total income + 8,00,000 deductions u/s 80JJAA/80RRB = 25,00,000. // AMT @ 18.5% (plus HEC @ 4%) = 4,81,000. AMT is payable as regular tax is < AMT. AMC credit = 4,81,000 – 3,14,600 = 1,66,400

**M12.** Total income = 45,00,000 business income + 10,00,000 IFOS – 5,00,000 deductions under Chapter VIA = 50,00,000. // Regular tax on total income = Tax on card game @ 30% + Tax on balance at regular rates + SC NIL + HEC @ 4% (on Tax + SC) = 13,65,000. // Adjusted total income = 50,00,000 + 3,00,000 deduction u/s 80RRB = 53,00,000. // AMT = 9,80,500 @ 18.5% + 10% SC + 4% HEC (on Tax + SC) = 11,21,692. AMT is not payable as regular tax is not < AMT.

**M16.** SC on such incomes cannot exceed 15%.

**M21.** Cannot exceed the rate of 40%.

**M23.** Option, once exercised, can be withdrawn only once for a PY (other than the year in which it was exercised). Thereafter, the person shall never be eligible to exercise option u/s 115BAC (except where such person ceases to have any income from business or profession).

**M24.** Option u/s 115BAC can be exercised by a person (not having income from business or profession) every year afresh.

**M25.** REGULAR PROVISIONS: GTI = 4,30,000 salary (after standard deduction of 50,000) + 50,000 interest = 4,80,000. Total income = GTI – Deduction u/s 80TTA 10,000 = 4,70,000. Regular tax = Nil. // 115BAC PROVISIONS: Total income u/s 115BAC = 4,70,000 total income + 50,000 standard deduction blocked + 10,000 deduction u/s 80TTA blocked = 5,30,000. Tax u/s 115BAC = 16,120. // Suyash should not opt for section 115BAC.

**M26.** REGULAR PROVISIONS: GTI = Business income 20,00,000 – IHP loss 2,00,000 + LTCG 3,00,000 = 21,00,000. Total income = GTI – 1,50,000 deduction u/s 80C = 19,50,000. Regular tax = Tax @ 20% on LTCG + Tax at regular rates on balance income = 3,82,200. // 115BAC PROVISIONS: Total income u/s 115BAC = 19,50,000 total income + 1,50,000 deduction u/s 80C blocked + 2,00,000 IHP loss as deduction for interest on self occupied property is blocked = 23,00,000. Tax u/s 115BAC = Tax @ 20% on LTCG + Tax at 115BAC rates on balance income = 4,13,400. // Rishabh should not opt for section 115BAC.

**M27.** REGULAR PROVISIONS: Total income = 40,00,000 salary + 5,00,000 STCG u/s 111A = 45,00,000. Regular tax = Tax on STCG u/s 111A @ 15% + Tax on balance income at regular rates = 11,31,000. // 115BAC PROVISIONS: Total income u/s 115BAC = 45,00,000 total income + 50,000 standard deduction blocked = 45,50,000. Tax u/s 115BAC = Tax on STCG u/s 111A @ 15% + Tax on balance income at 115BAC rates = 10,68,600. // Gaurav should opt for section 115BAC.

**M28.** REGULAR PROVISIONS: Salary = 12,00,000 basic salary + 50,000 HRA after exemption – 50,000 standard deduction = 12,00,000. GTI = 12,00,000 Salary income – 3,00,000 IHP loss + 45,000 family pension (60,000 – 15,000 standard deduction) + 50,000 interest from debentures (51,500 – 1,500 exempt u/s 10(32)) = 9,95,000. Total income = 9,95,000 GTI – 50,000 deduction u/s 80D = 9,45,000. Regular tax = 1,02,960. // 115BAC PROVISIONS: Total income u/s 115BAC = 9,45,000 total income + 2,50,000 HRA exemption blocked + 50,000 standard deduction blocked + 3,00,000 IHP loss (inter-head set off is blocked) + 15,000 family pension standard deduction blocked + 1,500 exemption u/s 10(32) blocked + 50,000 deduction u/s 80D blocked = 16,11,500. Tax u/s 115BAC = 2,29,788. // Sushu should not opt for section 115BAC.

**M29.** REGULAR PROVISIONS: Total income = 9,00,000 GTI – 1,00,000 deduction u/s 80CCD(2) – 50,000 deduction u/s 80CCD(1B) – 1,50,000 u/s 80CCE (deduction u/s 80CCD(1) and 80C up to a limit of 1,50,000) = 6,00,000. Regular tax = 33,800. // 115BAC PROVISIONS: Total income u/s 115BAC = 6,00,000 total income + 50,000 deduction u/s 80CCD(1B) blocked + 1,50,000 deduction u/s 80CCE (for 80CCD(1) and 80C) blocked + 50,000 standard deduction u/s 16 blocked = 8,50,000. Tax u/s 115BAC = 54,600. // Juhi should not opt for section 115BAC.

**M30.** REGULAR PROVISIONS: Total income = 30,00,000 business income – 5,00,000 deductions u/c VIA = 25,00,000. Regular tax = 5,85,000. // AMT PROVISIONS: Adjusted total income = 25,00,000 total income + 2,00,000 deduction u/s 80JJAA = 27,00,000. AMT @ 18.5% (plus HEC @ 4%) = 5,19,480. // 115BAC PROVISIONS: Total income u/s 115BAC = 25,00,000 total income + 3,00,000 deduction u/s 80G blocked + NIL deduction u/s 80JJAA not blocked = 28,00,000. Tax u/s 115BAC = 6,00,600. // AMT is not applicable as regular tax is not less than AMT. Section 115BAC is not beneficial as tax therein is more than regular tax. Rana should not opt for section 115BAC.

**M31.** REGULAR PROVISIONS: Total income = 20,00,000 business income – 3,00,000 deductions u/c VIA = 17,00,000. Regular tax = 3,35,400. // AMT PROVISIONS: Adjusted total income = 17,00,000 total income + 2,00,000 deduction u/s 80RRB + 10,00,000 deduction u/s 35AD – 1,00,000 depreciation allowable if deduction u/s 35AD is not allowed = 28,00,000. AMT @ 18.5% (plus HEC @ 4%) = 5,38,720. // 115BAC PROVISIONS: Total income u/s 115BAC = 17,00,000 total income + 3,00,000 deductions u/s 80C and 80RRB blocked + 10,00,000 deduction u/s 35AD blocked – 1,00,000 depreciation allowable if deduction u/s 35AD is not allowed = 29,00,000. Tax u/s 115BAC = 6,31,800. // Section 115BAC is not beneficial. AMT provisions will apply as regular tax is < AMT.





## 14

# TDS, TCS & Advance Tax

## Build Your Confidence (BYC)

### DEDUCTION OF TAX AT SOURCE (TDS)

**B1-4. SALARY** - Discuss the liability for tax deduction at source in the following cases:

1. S. 192 - **CA2019(MAY)** - An employee of the Central Government received arrears of salary for the earlier 3 years. He enquires whether amount will be received after deduction of tax at source during the current year.
2. S. 192 - Assume in the above situation that the assessee is an employee of Mr. X, a sole proprietor.
3. S. 192 - Prem, employed with JKL Pvt. Ltd., received accumulated balance of his account in the recognized provident fund consequent to his resigning from the service after a period of four years. JKL Pvt. Ltd. was his first employer. Provident Fund is managed by JKL Pvt. Ltd. through the PF Trust and is recognized by the Commissioner of Income Tax under the Income Tax Act.
4. S. 192A - **CA2019(NOV)** - Mr. Tandon, a resident, received a sum of Rs. 1,75,000 as pre mature withdrawal from Employees Provident Fund Scheme before continuous service of 5 years on account of termination of employment due to ill health. Examine and explain the TDS implications assuming he has a PAN which he has furnished to the deductor.

- 
- 1. Arrears will be paid after deducting TDS u/s 192. TDS will be computed after providing relief u/s 89(1) if necessary details are furnished by the employee in the prescribed manner. *Mistake by students - Failure to refer to section 89(1).*
- 2. Arrears will be paid after deducting TDS u/s 192. TDS will be computed without considering relief u/s 89(1) as the employer is an individual.
- 3. Payment of accumulated balance from the recognized provident fund is not exempt as Prem has rendered continuous service for less than 5 years. Employer will deduct TDS u/s 192.
- 4. Payment is exempt since, though Mr. Tandon has not rendered continuous service for 5 years, service has been terminated due to ill health. TDS will not be deducted u/s 192A. *Mistake by students - Failure to analyze exemption conditions for EPF withdrawal.*

**B5. 192A - CA2016(NOV)** - Discuss the provisions relating to premature withdrawal from Employees Provident Fund u/s 192A for AY 2023-24. - Refer para 212 of Concepts Book.

**B6-39. INTEREST, DIVIDEND & INVESTMENT INCOME** - Discuss the liability for tax deduction at source in the following cases:

1. S. 193 - BD Pvt. Ltd, paid interest on debentures of Rs. 4,000, to JK HUF, a resident, by account payee cheque on 25.3.2022 for the FY.
2. S. 193 - CD Ltd., paid interest of Rs. 20,000 on listed bonds to Mr. Y, a resident, on 15.5.2022. Bonds were held in demat account.
3. S. 193 - Mr. Z, a resident, received Rs. 10,000 as interest on 7.75% Savings (Taxable) Bonds, 2018 for FY 2022-23 on 31.3.2023.
4. S. 193 - Mrs. Y, a resident, received interest of Rs. 65,000 on 15.12.2022 on Rajasthan Government Bonds.
5. S. 193 - **CA2021(JAN)** - Mr. Marwah, a resident aged 80 years, holds 6½% Gold Bonds, 1977 of Rs. 2,00,000 and 7% Gold Bonds, 1980 of Rs. 3,00,000. He received yearly interest on these bonds on 28.2.2023.
6. S. 194A - **CA2019(NOV)** - A sum of Rs. 42,000 has been credited as interest on recurring deposit by a banking company to the account of Mr. Hasan (aged 63 years).
7. S. 194A - **CA2017(MAY)** - Pallavi Bank Ltd. has paid interest of Rs. 29,000 to Mr. A, a resident Indian aged 50 years, from its Chennai branch and Rs. 28,000 from Bangalore branch. If there is no core banking services in the bank, is tax required to be deducted at source from such interest payments made on 31.3.2023? Will your answer be different if there is core banking service present in the bank? Also, explain the provisions in this regard.

8. S. 194A - **CA2016(NOV)** – Is TDS applicable in respect of payment of Rs. 1,00,000 to Mr. Pandey, a resident, being interest on recurring deposit with SBI?
9. S. 194A - **CA2011(MAY)** – During the FY 2022-23, Mr. Yuwan Raja, a resident individual (whose turnover from business during the year ended 31.3.2022 was Rs. 99 lakh) paid interest of Rs. 12,000 to Rehman & Co, a resident partnership firm, without deduction of tax at source. Briefly discuss whether any disallowance arises under the provisions of section 40(a)(ia).
10. S. 194A - **CA2021(JAN)** – Mr. Raju (a resident individual aged 54 years) has maintained two fixed deposits in two different branches of BFG Bank of India (working on core banking solution). During the year 2022-23, the bank paid Rs. 32,000 and Rs. 17,000 as interest on these fixed deposits.
11. S. 194A - **CA2021(JAN)** – On 1.5.2022, Mr. Brijesh, a resident, made three fixed deposits of nine months each of Rs. 3 lakh each, carrying interest @ 9% with Mumbai branch, Delhi branch and Chandigarh branch of CBZ Bank, a bank which had adopted CBS. These fixed deposits mature on 31.1.2023.
12. S. 194A - **CA2021(JAN)** – M/s AG Pvt. Ltd. took a loan of Rs. 50,00,000 from Mr. Haridas, a resident. It credited interest of Rs. 79,000 payable to Mr. Haridas during PY 2022-23. M/s AG Pvt. Ltd. is not liable for tax audit during PY 2021-22 and 2022-23.
13. S. 194A - Jaiman, a resident, deposited Rs. 8,00,000 as fixed deposit with Sahkari Co-operative bank on 1.7.2022 at 9% p.a. Deposit matures on 31.3.2023. Compute the amount of TDS deductible, if any.
14. S. 194A - Rashmi, a resident aged 35 years, deposited Rs. 5,00,000 as fixed deposit with ICICI Bank on 1.10.2022 at 8% p.a. Fixed deposit matures on 31.3.2023. Compute the amount of TDS deductible, if any.
15. S. 194A - Mr. J, a resident aged 65 years, made fixed deposits of Rs. 3 lakh each in five branches of JK Bank on 1.6.2022 @ 10% p.a. interest for a tenure of six months. Bank has adopted CBS.
16. S. 194A - Mr. K, a resident aged 55 years, made fixed deposits of Rs. 3 lakh each in five branches of a co-operative Bank on 1.6.2022 @ 10% p.a. interest for a tenure of six months. Bank has not adopted CBS.
17. S. 194A - Mr. K, a resident aged 55 years, made fixed deposits of Rs. 5 lakh each in PNB, SBI and HDFC Banks on 1.6.2022 @ 10% p.a. interest for a tenure of six months. Banks have adopted CBS.
18. S. 194A - Rs. 1,00,000 of interest for FY 2022-23 was credited to the savings bank account of Raghav held with Bank of India.
19. S. 194A - Rohit paid interest of Rs. 75,000 to Dena Bank during FY 2022-23 in respect of loan taken for business. Turnover of business of Rohit for FY 2021-22 is Rs. 2 crore.
20. S. 194A - Mrs. Z received interest of Rs. 10,000 on 12.2.2023 in respect of deposits with CDE Ltd, a manufacturing concern. Mrs. Z has not furnished her PAN to the company.
21. S. 194A - Suresh, carrying on a business having turnover of Rs. 1.2 crore for FY 2021-22 and Rs. 95 lakh for FY 2022-23, paid interest to UCO bank of Rs. 45,000 on 15.12.2022.
22. S. 194A – Bank of India gave a loan of Rs. 50 lakh to BCD Ltd. on 14.7.2022. BCD Ltd. paid 2% as service fee for processing the loan application.
23. S. 194A - **CA2021(DEC)** – Rs. 51,000 paid to Mr. R, a resident individual as interest income on compensation awarded by Motor Accidents Claims Tribunal by a transport company.
24. S. 194A - **CA2021(DEC)** – Mr. K, deposited Rs. 30,00,000 @ 10% p.a. with Dagrū Co-operative Bank Limited for one year.
25. S. 194A - **CA2021(DEC)** – Mr. R, deposited Rs. 1,00,000 @ 12% p.a. for half year with Growth Investment LLP.
26. S. 194 - Rahul, a resident, received annual dividend of Rs. 5,000 from Shine Ltd. on 1.9.2022. He also received Rs. 10,000 on 1.1.2023 as loan from Win Pvt. Ltd. in which he held 20% equity shares. Both companies are Indian companies and payments were made by NEFT mode. He furnished his PAN number to Win Pvt. Ltd. but did not furnish it to Shine Ltd.
27. S. 194 - Rajul, a resident, received dividend of Rs. 20,000 on preference shares held by him in Z Ltd, an Indian company, on 1.12.2022. Rajul did not furnish his PAN number to Z Ltd.
28. S. 194K - Harish, a resident, received income of Rs. 10,000 on 10.7.2022 in respect of units held in Kotak Mutual Fund, Rs. 5,000 on 10.8.2022 in respect of units held in HDFC Mutual Fund and earned capital gains (computed) of Rs. 20,000 from sale of units of Birla Sunlife Mutual Fund on 10.9.2022.
29. S. 194DA - **CA2021(JAN)** – Mr. Prabhakar, a resident, is due to receive Rs. 6 lakh on 31.3.2023 towards maturity proceeds of LIC policy taken on 1.4.2019, for which the sum assured is Rs. 5 lakh and the annual premium is Rs. 1,40,000.
30. S. 194DA - **CA2019(MAY)** – Ms. Varsha received a sum of Rs. 95,000 on 31.3.2023 towards maturity proceeds of LIC taken on 1.10.2017 for which sum assured was Rs. 80,000 and annual premium was Rs. 10,000.
31. S. 194DA - Mr. Z, a resident, is due to receive Rs. 11,00,000 on 1.1.2023 on maturity of life insurance policy having sum assured of Rs. 10,00,000 issued on 31.12.2017 for which he paid annual premium of Rs. 1,20,000.
32. S. 194DA – Ms. C, a resident, was issued a life insurance policy on 1.3.2012 for a sum assured of Rs. 1,00,000 on an annual premium of Rs. 10,000. The policy matured on 1.3.2023 and the sum payable to her is Rs. 1,75,000.
33. S. 194DA - Madhav, a resident, is supposed to receive maturity proceeds of Rs. 5,00,000 on the Keyman Insurance Policy taken by his employer on his life and later assigned to him.
34. S. 194EE – Deepa received Rs. 5,000 on 17.4.2022 as withdrawal from her account in the National Saving Scheme, 1987.

- 1. TDS is deductible u/s 193 as payer company is a closely held company. TDS = 10% of 4,000 = 400.
- 2. TDS is not deductible u/s 193 since bonds are listed security of a company in dematerialized form.
- 3. TDS is not deductible u/s 193 since interest for the FY is not > 10,000.
- 4. TDS is not deductible u/s 193 from interest on any security of the Government.
- 5. TDS is deductible u/s 193 since the total nominal value of bonds in each case is > 10,000. Interest = 13,000 (6½% of 2 lakh) + 21,000 (7% of 3 lakh) = 34,000. TDS = 10% of 34,000 = 3,400.
- 6. TDS is not deductible u/s 194A since interest is not > 50,000, assuming Mr. Hasan is a resident and, thus, a senior citizen.
- 7. TDS is not deductible u/s 194A if payer bank has not adopted core banking solutions since interest is computed per branch which is not > 40,000. If payer bank has adopted core banking solutions, TDS will be deducted u/s 194A since interest payable by the payer bank is > 40,000. In such case TDS = 10% of 57,000 = 5,700.
- 8. TDS is deductible u/s 194A as interest exceeds the threshold of 40,000 (50,000 if Mr. Pandey is a senior citizen). TDS = 10% of 1,00,000 = 10,000.
- 9. Mr. Raja is not a specified individual covered u/s 194A as turnover from business in the preceding FY is not > 1 crore. Hence, TDS is not deductible. Consequently, disallowance u/s 40(a)(ia) does not arise.
- 10. TDS is deductible u/s 194A as aggregate interest for all branches of the payer bank (since bank has adopted CBS) of 49,000 is > 40,000. TDS = 10% of 49,000 = 4,900.
- 11. TDS is deductible u/s 194A as aggregate interest for all branches of the payer bank (since bank has adopted CBS) of 60,750 (assuming rate of interest is per annum) is > 40,000 (50,000 in case Mr. Brijesh is a senior citizen). TDS = 10% of 60,750 = 6,075.
- 12. TDS is deductible u/s 194A since it exceeds the threshold of 5,000. A company is liable to deduct TDS whether or not it is liable to tax audit. TDS = 10% of 79,000 = 7,900.
- 13. Interest for 9 months = Rs. 54,000. TDS is deductible u/s 194A as interest is > threshold of 40,000 (50,000 in case of senior citizen). TDS = 10% of 54,000 = 5,400.
- 14. Interest for 6 months = Rs. 20,000. TDS is not deductible u/s 194A since interest is not > 40,000.
- 15. TDS is deductible as aggregate interest for all branches (since bank has adopted CBS) of 75,000 is > 50,000 (Mr. J is a senior citizen). TDS = 10% of 75,000 = 7,500.
- 16. Interest per branch (since bank has not adopted CBS) of 15,000 is not > 40,000. TDS is not deductible u/s 194A.
- 17. Interest per payer bank (since banks have adopted CBS) is 25,000 which is not > 40,000. TDS is not deductible u/s 194A.
- 18. TDS is not deductible u/s 194A from interest on deposits in bank (other than time deposits).
- 19. Rohit is a specified individual covered u/s 194A as turnover from business in the preceding FY is > 1 crore. But TDS is not deductible as interest is paid to a bank.
- 20. TDS is deductible u/s 194A as interest is > 5,000. Since PAN has not been furnished by the payee to the payer, rate of TDS u/s 206AA is 20%. TDS = 20% of 10,000 = 2,000.
- 21. Suresh is a specified individual covered u/s 194A as turnover from business in the preceding FY is > 1 crore. But TDS is not deductible as interest is paid to a bank.
- 22. Service fee is included within the definition of 'interest' u/s 2(28A). Hence, it is covered u/s 194A. But TDS is not deductible as it is paid to a bank.
- 23. TDS is deductible u/s 194A as such interest paid is > 50,000. TDS = 10% of 51,000 = 5,100.
- 24. TDS is deductible u/s 194A as interest is > 40,000 (50,000 in case Mr. K is a senior citizen). TDS = 10% of 3,00,000 = 30,000.
- 25. TDS is deductible u/s 194A as interest is > 5,000. TDS = 10% of 6,000 = 600.
- 26. *Shine Ltd.*: TDS is not deductible u/s 194 since amount is not > 5,000 for FY 2022-23. *Win Pvt. Ltd.*: Loan is treated as dividend u/s 2(22)(e). TDS is deductible u/s 194 as amount is > 5,000. TDS = 10% of 10,000 = 1,000.
- 27. TDS is deductible u/s 194 as amount is > 5,000. Since PAN has not been furnished by the payee to the payer, rate of TDS u/s 206AA is 20%. TDS = 20% of 20,000 = 4,000.
- 28. *Kotak MF*: TDS is deductible u/s 194K as income is > 5,000. TDS = 10% of 10,000 = 1,000. *HDFC MF*: TDS is not deductible u/s 194K as income is not > 5,000. *Birla MF*: TDS is not deductible u/s 194K on capital gain.
- 29. Since annual premium is > 10% of sum assured for policy issued after 31.3.2012, exemption u/s 10(10D) is not available. TDS is deductible u/s 194DA since maturity proceeds are not < 1 lakh. TDS = 5% of 40,000 being income comprised in the payment (6 lakh proceeds – 5.6 lakh premiums paid) = 2,000.
- 30. Since annual premium is > 10% of sum assured for policy issued after 31.3.2012, exemption u/s 10(10D) is not available. But TDS is not deductible u/s 194DA as maturity proceeds are < 1 lakh. **Mistake by students – Did not consider threshold of 1 lakh.**
- 31. Since annual premium is > 10% of sum assured for policy issued after 31.3.2012, exemption u/s 10(10D) is not available. TDS is deductible u/s 194DA since maturity proceeds are not < 1 lakh. TDS = 5% of 5 lakh being income comprised in the payment (11 lakh proceeds – 6 lakh premiums paid) = 25,000.

32. Since annual premium is not > 20% of sum assured for policy issued till 31.3.2012, exemption u/s 10(10D) is available. Hence, TDS is not deductible u/s 194DA.
33. Keyman insurance policy proceeds are not exempt u/s 10(10D). TDS is deductible u/s 194DA on the income comprised in the payment since payment is not < 1 lakh.
34. TDS is deductible u/s 194EE as amount is not < 2,500. TDS = 10% of 5,000 = 500.

**B40-47. CASUAL INCOME** - Discuss the liability for tax deduction in the following cases:

1. S. 194B - **CA2021(JULY)** – A payment of Rs. 3,20,000 made to Vidyawati, an Indian resident, on 15.1.2023, by a TV channel for winning from a crossword puzzle.
2. S. 194B - **CA2019(NOV)** – Ms. Kaul won a lucky draw prize of Rs. 21,000. The lucky draw was organized by M/s Maximus Retail Ltd for its customers.
3. S. 194B - **CA2019(NOV)** – Y & Co, engaged in real estate business, conducted a lucky dip and gave a Maruti car worth Rs. 5 lakh to the prize winner.
4. S. 194B - **CA2019(MAY)** – A TV channel pays Rs. 10 lakh as prize money to the winner of a quiz programme.
5. S. 194B - **CA2021(DEC)** – Mr. Lakhpati got Rs. 3,20,000 at 10th level of crossword after using lifeline of phone friend in online cross word gaming.
6. S. 194BB - Mr. K won Rs. 1 lakh as prize from horse race. He has not furnished his PAN number to the payer.
7. S. 194BB - Winning from horse race of Rs. 1 lakh was paid to Mr. G, a resident individual, on 20.12.2022.

- 
1. TDS is deductible u/s 194B @ 30% of 3,20,000 since winning is > 10,000. TDS = 96,000.
  2. TDS is deductible u/s 194B @ 30% of 21,000 since prize money is > 10,000. TDS = 6,300.
  3. TDS is deductible u/s 194B since winning is > 10,000. Since winning is wholly in kind, Y & Co is required to ensure that TDS @ 30% (i.e., 1,50,000) is paid u/s 194B, before releasing the car to the winner.
  4. TDS is deductible u/s 194B @ 30% of Rs. 10 lakh since prize money is > 10,000. TDS = 3 lakh.
  5. TDS is deductible u/s 194B @ 30% of Rs. 3,20,000 since winning is > 10,000. TDS = 96,000.
  6. TDS is deductible u/s 194BB as winning is > 10,000. TDS = 30% of 1,00,000 = 30,000. Even if PAN is not furnished, rate of TDS remains at 30% as it is higher than the rate of 20% specified u/s 206AA.
  7. TDS is deductible u/s 194BB as winning is > 10,000. TDS = 30% of 1,00,000 = 30,000.

**B48-54. COMMISSION** - Discuss the liability for tax deduction in the following cases:

1. S. 194D - **CA2019(NOV)** – An insurance company paid Rs. 45,000 as insurance commission to its agent Mr. Abhijeet on 15.11.2022.
2. S. 194D - XYZ Insurance Company pays insurance commission of Rs. 10,000 each to 20 agents during the FY 2022-23, amount in all to Rs. 2,00,000.
3. S. 194H - **CA2018(NOV)** – Mudra Ltd., an advertisement company, has retained a sum of Rs. 15 lakh, towards charges for procuring and canvassing advertisement, from payment of Rs. 1 crore due to Cloud TV, a television channel, and has remitted the balance amount of Rs. 85 lakh to the television channel. Would the provisions of TDS u/s 194H be attracted on the sum of Rs. 15 lakh retained by the advertisement company?
4. S. 194H - **CA2016(MAY)** – Ashwin, a resident individual carrying on business (turnover for FY 2021-22 Rs. 2.2 crore; for FY 2022-23 Rs. 20 lakh), paid commission to Babloo of Rs. 8,500.
5. S. 194H - Bajaj Ltd. sells manufactured goods to its wholesalers at a discount of 50% on the MRP. Is Bajaj Ltd. liable to deduct TDS on discount?
6. S. 194H - Mr. Z paid commission of Rs. 50,000 to his agent, a resident, on 15.12.2022 for effecting sale of goods manufactured by him. Turnover from business of Mr. Z for PY 2021-22 was Rs. 1.5 crore and that for PY 2022-23 was Rs. 75 lakh.
7. S. 194H - KLM Ltd. paid commission of Rs. 15,000 each to its five agents, resident in India, during the PY 2022-23.

- 
1. TDS is deductible u/s 194D since commission is > 15,000. TDS @ 5% is 2,250.
  2. TDS is not deductible u/s 194D since payment to any agent is not > 15,000.
  3. TDS is not deductible u/s 194H on 15 lakh in view of CBDT Circular 5/2016 as the transaction is on principal-to-principal basis and not on principal-to-agent basis.
  4. Ashwin is a specified individual covered u/s 194H as turnover from business in the preceding FY is > 1 crore. But TDS is not deductible since amount paid to Babloo is not > 15,000.
  5. Discount is in the nature of trade discount and is not commission. TDS is not deductible u/s 194H.
  6. Mr. Z is a specified individual covered u/s 194H as turnover from business in the preceding FY is > 1 crore. TDS is deductible as amount paid is > 15,000. TDS @ 5% = 2,500.

7. TDS is not deductible u/s 194 since amount paid to any payee does not exceed 15,000.

**B55-97. WORK & SERVICES** - Discuss the liability for tax deduction in the following cases:

1. S. 194C - **CA2019(NOV)** – Gupta & Co, a partnership firm, engaged in a wholesale business, assigned a contract for construction of its godown building to Mr. Ravi. The firm paid an aggregate of Rs. 10 lakh to Mr. Ravi during the year.
2. S. 194C - **CA2021(JULY)** – Payer: Rahul, a wholesale trader of spices whose turnover was Rs. 5 crore in FY 2021-22. Nature of payment: Contract payment for construction of office godown during January to March, 2023, to Akhilesh, a resident individual. Payment: Rs. 50,00,000.
3. S. 194C - **CA2019(NOV)** – Mr. Bobby, a resident, whose turnover during the previous FY is Rs. 205 lakh and for the current FY 2022-23 is Rs. 80 lakh, made payment of Rs. 2,00,000 on 1.10.2022 to Mr. A for purchase of diaries as per specifications. However, no material was supplied for such diaries. He also made contract payment to Mr. Satheesan on 1.5.2022 for painting of Rs. 25,000 and another contract for interior furnishing on 22.3.2022 for Rs. 20,000.
4. S. 194C - **CA2016(MAY)** – Ashwin, a resident individual carrying on business (turnover for FY 2021-22 is Rs. 2.2 crore; for FY 2022-23 is Rs. 20 lakh), made payment to Vijay for repair of office building – Rs. 23,000.
5. S. 194C - **CA2020(NOV)** – ABC Ltd. makes payment of Rs. 1,50,000 to Ramlal, an individual transporter, who owned 6 goods carriages throughout the PY. He does not furnish his PAN.
6. S. 194C - **CA2021(DEC)** – Mr. Mahesh has paid Rs. 6,00,000 on 15.10.2022 to M/s Fresh Cold Storage Pvt. Ltd., a resident, for preservation of fruits and vegetables. He is engaged in the wholesale business of fruits & vegetable in India having turnover of Rs. 3 crores during the PY 2021-22.
7. S. 194C - **CA2022(MAY)** – ABC Ltd is a producer of natural gas. During the year it sold natural gas worth Rs. 26,50,000 to M/s Deep Co., a partnership firm. It also incurred Rs. 1,70,000 as freight for the transportation of gas. It raised the invoice and clearly segregated the value of gas as well as the transportation charges.
8. S. 194C - JK Pvt. Ltd. made payment to Ravi, a resident contractor, on 15.4.2022 (Rs. 25,000), on 15.9.2022 (Rs. 27,000) on 15.12.2022 (Rs. 29,000) and on 15.3.2023 (Rs. 26,000).
9. S. 194C - JK Pvt. Ltd. made payment to Ravi, a resident contractor, on 15.4.2022 (Rs. 35,000), on 15.9.2022 (Rs. 27,000) and on 15.3.2023 (Rs. 31,000).
10. S. 194C - JK Pvt. Ltd. made payment to Ravi, a resident contractor, on 15.4.2022 (Rs. 25,000), on 15.9.2022 (Rs. 35,000) on 15.12.2022 (Rs. 30,000) and on 15.3.2023 (Rs. 20,000).
11. S. 194C - **CA2022(MAY)** – ABC LLP paid job charges to XYZ, a partnership firm, for doing embroidery work on the fabric supplied by the ABC LLP during the PY 2022-23 as under: Bill No. 1 dated 30.4.2022 for Rs. 27,000; Bill No. 57 dated 30.6.2022 for Rs. 25,000; Bill No. 105 dated 30.9.2022 for Rs. 28,000; Bill No. 151 dated 30.12.2022 for Rs. 32,000.
12. S. 194C - Z Ltd made payment of Rs. 1 lakh as rent for machinery hired from Mr. K, a resident.
13. S. 194C - PQR Pvt. Ltd. made payment of Rs. 50,000 to Mr. J, a transporter resident in India, for transporting goods from the factory to its premises. Mr. J submitted declaration to PQR Pvt. Ltd. that he owns not more than 10 goods carriages, along with his PAN.
14. S. 194C - KMC Ltd entered into a contract with Mr. Law, a noted lawyer and a resident, for providing legal services during the PY 2022-23 and made payment of Rs. 10 lakh during the year.
15. S. 194C - Mr. B, carrying on a business having turnover of Rs. 90 lakh for PY 2021-22 and Rs. 120 lakh for PY 2022-23, paid Rs. 90,000 to M/s CDE Pvt. Ltd., an Indian company, on 1.3.2023 for advertising services.
16. S. 194C - Shubh, a Chartered Accountant, received professional fee of a total of Rs. 60 lakh during the PY 2021-22. During the PY 2022-23, he made payment of Rs. 50,000 to Shailesh, a resident, for printing invitation cards for the marriage of his daughter as per his specifications. Raw material was procured by Shubh and provided to Shailesh. He also made payment of Rs. 75,000 to Saurabh, a resident, for providing catering services during the marriage ceremony.
17. S. 194C - Jinesh gave a contract to Vinesh, a resident, in respect of manufacture of machinery spare parts as per his specifications. Vinesh procured the raw material for such manufacture from Shah & Co, a partnership firm in which Jinesh held 25% share of profits. Jinesh paid Rs. 1,20,000 in three equal instalments on 15.4.2022, 15.6.2022 and 15.8.2022. Jinesh was liable to tax audit for FY 2021-22.
18. S. 194C - For transport of its cargo, M&N LLP of Delhi paid Rs. 30,000 to Mr. C, a resident, for carrying the cargo from its factory to the railway station and Rs. 75,000 to the Indian Railways for further transport of cargo to Chennai.
19. S. 194C - Suresh, carrying on a business, having turnover of Rs. 1.2 crore for FY 2021-22 and Rs. 95 lakh for FY 2022-23, made contract payment to Harsh, a resident, of Rs. 24,000 on 15.12.2022 in respect of two contracts of Rs. 12,000 each.
20. S. 194C - M/s Z Ltd. made payment of Rs. 2 lakh to Mr. J, a resident transporter. Mr. J owns 9 goods carriages throughout the PY. He has also furnished a declaration to this effect along with his PAN to M/S Z Ltd.
21. S. 194J - **CA2020(NOV)** – Payment of royalty of Rs. 22,000 and FTS of Rs. 28,000 to Mr. R, who is having PAN, were made during the PY 2022-23 by M/s Z Ltd.
22. S. 194J - **CA2020(NOV)** – Z Ltd. paid Rs. 18,000 to one of its directors as sitting fees on 2.2.2023

23. S. 194J - **CA2019(MAY)** – XYZ Pvt. Ltd. pays the following amounts to Mr. Narayan during the PY 2022-23: (1) Rs. 22,000 towards fee for professional services, (2) Rs. 18,000 towards royalty.
  24. S. 194J - **CA2019(MAY)** – Talent Pvt. Ltd. pays Rs. 12,000 to Ms. Sudha, its director, on 1.12.2022 towards sitting fee which is not taxable u/s 192.
  25. S. 194J - **CA2019(MAY)** – Radha Ltd is engaged only in the business of operation of call centre. On 18.3.2023, the total amount credited by Shyam Ltd in the ledger account of Radha Ltd is Rs. 70,000 regarding service charges of call centre. The amount is paid through cheque on 28.3.2023 by Shyam Ltd.
  26. S. 194J - **CA2019(MAY)** – A television company pays Rs. 50,000 to a cameraman for shooting of a documentary film.
  27. S. 194J - **CA2011(NOV)** – Fee paid to Dr. Srivatsan by Sundar (HUF) Rs. 35,000 for surgery performed on a member of the family.
  28. S. 194J - **CA2016(MAY)** – Ashwin, a resident individual carrying on business (turnover for FY 2021-22 Rs. 2.2 crore; for FY 2022-23 Rs. 20 lakh), made payment of fees for technical services to Vivek on 15.4.2022 – Rs. 35,000.
  29. S. 194J - Soft Ltd., an Indian company, purchased a business application software for which it made payment after deducting TDS u/s 194J. It sold the software, as it is, to B&C LLP. Soft Ltd. gave a declaration to B&C LLP that it had earlier deducted TDS u/s 194J and also furnished its PAN number.
  30. S. 194J - XYZ Ltd. made payment to Mr. C, a Chartered Accountant, of Rs. 50,000 on 1.6.2022 for professional services rendered.
  31. S. 194J - Gyan Publishers Pvt. Ltd. made a payment of Rs. 2 lakh to Mr. Writer, a resident, on 15.4.2022, as royalty on sale of books for which Mr. Writer holds the copyright.
  32. S. 194J - Mr. K, having business turnover of Rs. 5 crore in PY 2021-23, made a payment of Rs. 40,000 on 15.1.2023 to JK Ltd. for use of certain design templates developed and owned by JK Ltd.
  33. S. 194J - During the FY 2021-22, M/s Z Ltd. made payment of Rs. 25,000 as fees for technical services and of Rs. 20,000 as royalty, to Mr. K. Mr. K has not furnished his PAN to Z Ltd.
  34. S. 194M - **CA2021(JULY)** – Payer: Kale, receiving pension from Central Government. Nature of payment: Contractual payment made to a resident during April 2022 for reconstruction of his residential house in Arunachal Pradesh. - Rs. 52,50,000.
  35. S. 194M - **CA2021(JULY)** – Payer: Golu, an individual carrying on garment trading business with turnover of Rs. 95 lakh in FY 2021-22. Nature of payment: Payment of commission to Vinay, a resident, for securing a contract from a big business house in November 2022. - Rs. 1,20,000.
  36. S. 194M - **CA2020(NOV)** - Sanjay, a resident Indian individual, not deriving any income from business or profession, makes payments of Rs. 12 lakh in January 2023, Rs. 20 lakh in February 2023 and Rs. 20 lakh in March 2023 to Mohan, a contractor, for reconstruction of his residential house.
  37. S. 194M - **CA2021(JAN)** - Mr. Avinash, pays Rs. 55,00,000 during FY 2022-23 to Mr. Harsh for supply of labour for carrying out the construction work of his factory. During the PY 2021-22, Mr. Avinash was not liable for tax audit u/s 44AB.
  38. S. 194M - Suman carries on a business having turnover of Rs. 1.5 crore for FY 2021-22 and Rs. 90 lakh for FY 2022-23. She paid commission to Mr. G of Rs. 15,000 on 1.7.2022. She also paid Rs. 10 lakh to a contractor for renovation of her residential house.
  39. S. 194M - Yugal carries on a profession whose gross receipts for FY 2021-22 were Rs. 45 lakh. He got his residential house renewed for which he made payment to the contractor of Rs. 20 lakh on 1.10.2022, Rs. 25 lakh on 1.11.2022 and Rs. 10 lakh on 1.12.2022.
  40. S. 194M - Jugal carries on a business whose turnover for FY 2021-22 was Rs. 30 lakh. He paid Rs. 60 lakh to a contractor for manufacture of office furniture as per his specifications. The contractor procured the raw material by himself from open market.
  41. S. 194M - Manav, a salaried person, paid Rs. 51 lakh to a lawyer on 5.4.2022 for defending criminal proceedings against him.
  42. S. 194M - Dheeraj, a retired employee drawing pension, made payment of fee for technical services of Rs. 55 lakh to BCD Pvt Ltd on 15.2.2023.
  43. S. 194M - Rashi is a professional having gross receipts of Rs. 60 lakh for FY 2021-22. She paid Rs. 25,000 as commission to BK & Co agents on 15.7.2022.
- 
1. It is a works contract. Aggregate of sums paid during the year is > 1 lakh. TDS is deductible u/s 194C. TDS @ 1% of 10 lakh = 10,000.
  2. Rahul is a specified individual covered u/s 194C as turnover from business in the preceding FY is > 1 crore. TDS @ 1% of 50 lakh = 50,000.
  3. Mr. Bobby is a specified individual covered u/s 194C as turnover from business in the preceding FY is > 1 crore. In case of Mr. A: TDS is not deductible u/s 194C since it is a contract for sale and not for work as material is not purchased by Mr. A from Mr. Bobby (or his associate). In case of Mr. Satheesan – TDS is not deductible u/s 194C as sum paid in each case is not > 30,000 and aggregate of sums paid during the FY is not > 1 lakh.
  4. Ashwin is a specified individual covered u/s 194C as turnover from business in the preceding FY is > 1 crore. But TDS is not deductible as sum paid is not > 30,000.

5. Though Ramlal is a goods carriage operator owning not more than 10 goods carriages at any time during the PY, he does not furnish his PAN. Hence, exemption in respect of goods transport operator is not available and TDS is deductible u/s 194C @ 20% (in terms of section 206AA since PAN is not furnished) on 1.5 lakh. TDS = 30,000
6. Mr. Mahesh is a specified individual covered u/s 194C as turnover from business in the preceding FY is > 1 crore. Amount paid by as cooling charges to cold storage is liable to TDS u/s 194C in terms of Circular 1/2008. Sum paid is > 30,000. TDS @ 2% = 12,000.
7. Since ABC Ltd. has sold as well as transported gas to the firm till the point of delivery, where ownership of gas is simultaneously transferred, it is a 'contract for sale' as clarified by Circular 9/2012 not covered u/s 194C. Whether transportation charges are embedded in the cost of gas or shown separately is not relevant. Hence, TDS u/s 194C is not applicable on transportation charges as well paid by the firm.<sup>1</sup>
8. Even though sum paid in each case is not > 30,000, aggregate of sums paid during the FY is > 1 lakh. TDS will be deducted u/s 194C on 1,07,000 at the time of credit/payment of 26,000. TDS @ 1% = Rs. 1,070. Last payment = 26,000 – 1,070 = 24,930.
9. Aggregate of sums paid during the FY is not > 1 lakh. TDS is deductible u/s 194C @ 1% of 35,000 (i.e., 350) and @ 1% of 31,000 (i.e., 310), since such sum in each case is > 30,000.
10. 15 April: TDS is not deductible u/s 194C as the sum is not > 30,000. 15 September: TDS is deductible @ 1% of 35,000 since the sum is > 30,000. TDS = 350. 15 December: TDS is not deductible as the sum is not > 30,000. 15 March: Since the aggregate of sums for the FY exceeds 1 lakh, TDS is deductible @ 1% of 75,000 (1,10,000 of aggregate – 35,000 on which TDS was deducted earlier), i.e., 750. Total TDS = 1,100.
11. TDS is not deductible u/s 194C on the first three payments as the sum in each case is not > 30,000. However, the sum last paid is > 30,000 and also the aggregate of sums paid during the FY exceeds 1 lakh with this payment. Hence, TDS deductible from the last payment @ 2% on the entire amount of 1,12,000 = 2,240. Amount of last payment = 32,000 – 2,240 = 29,760.
12. TDS is not deductible u/s 194C as payment is not for carrying out any work. Section 194-I is applicable.
13. TDS is not deductible u/s 194C since Mr. J has fulfilled all the conditions for exemption in respect of a goods transport operator.
14. TDS is not deductible u/s 194C as payment is for professional services in case of a specified profession u/s 44AA. Section 194J is applicable.
15. Mr. B is not a specified individual covered u/s 194C as turnover from business in the preceding FY is not > 1 crore. TDS is not deductible u/s 194C. TDS liability is required to be examined u/s 194M.
16. Shubh is a specified individual covered u/s 194C as gross receipts from profession in the preceding FY is > 50 lakh. Each sum is > 30,000. Printing is a 'work' since raw material is supplied by Shubh. Catering is also a 'work'. However, TDS is not deductible since sums are paid for personal purposes of Shubh.
17. Jinesh is a specified individual covered u/s 194C as turnover from business in the preceding FY is > 1 crore (as he was liable to tax audit). Shah & Co is an associate of Jinesh u/s 40A(2) as he holds ≥ 20% share of profits. Manufacture is as per specifications of Jinesh using material purchased from his associate. It is 'work' u/s 194C. Each sum is > 30,000. TDS on each sum @ 1% is 400. Total TDS = 1,200.
18. Payment to Mr. C: TDS is not deductible u/s 194C since the sum is not > Rs. 30,000. Payment to Railways: TDS is not deductible u/s 194C in respect of transport by railways.
19. Suresh is a specified individual covered u/s 194C as turnover from business in the preceding FY is > 1 crore. But TDS is not deductible since sum paid is not > 30,000 and aggregate of sums paid during the FY is not > 1 lakh.
20. TDS is not deductible u/s 194C since Mr. J is a goods carriage operator owning not more than 10 goods carriages at any time during the PY and he has furnished declaration to that effect, along with his PAN, to M/s Z Ltd.
21. TDS is not deductible u/s 194J since the sum for each category is not > 30,000.
22. TDS is deductible u/s 194J @ 10% of 18,000 (assuming it is not in the nature of salary), i.e., 1,800. There is no threshold. TDS will be deductible u/s 192 if the sum is in the nature of salary.
23. TDS is not deductible u/s 194J since the sum for each category is not > 30,000.
24. TDS is deductible u/s 194J @ 10% of 12,000, i.e., 1,200. There is no threshold.
25. TDS is deductible u/s 194J @ 2% of 70,000, i.e., 1,400, and is to be deducted on 18.3.2023, i.e., the earlier of credit or payment. Rate is 2% since Radha Ltd. is engaged only in the business of operation of call centre.
26. TDS is deductible u/s 194J @ 10% of 50,000, i.e., 5,000, since the sum is > 30,000. This is FPS since cameraman is a film artist covered u/s 44AA.
27. HUF is liable to deduct TDS u/s 194J only if turnover from the business is > 1 crore in the preceding FY. Even then TDS is not deductible in this case since the sum by way of FPS is paid exclusively for personal purposes of a member of the HUF.

<sup>1</sup> Since the question is silent on the timing of transfer of ownership of gas to the firm, it can also be inferred that ownership of gas is transferred before its transportation. In such case, transportation of gas after transfer of ownership can be considered as a separate contract for transportation liable to TDS u/s 194C. Hence, TDS deductible @ 2% of 1,70,000 = 3,400.

28. Ashwin is a specified individual u/s 194J as turnover from business in preceding FY is > 1 crore. Sum for FTS is > 30,000. TDS is deductible @ 10% or 2% of 35,000 depending on whether the sum is by way of FTS being professional services or FTS not being professional services and assuming that Vivek is a resident.
29. TDS is not deductible in terms of Notification No. 21/2012 as the software is acquired by B&C LLP from Soft Ltd., a resident, in a subsequent transfer without any modification thereto, Soft Ltd. had deducted TDS u/s 194J for which it has given the declaration, along with its PAN, to B&C LLP.
30. TDS is deductible u/s 194J on FPS since the sum is > 30,000. TDS @ 10% = 5,000.
31. TDS is deductible u/s 194J on royalty since the sum is > 30,000. TDS @ 10% = 20,000.
32. Payment is in the nature of royalty. Mr. K is a specified individual u/s 194J as turnover from business in preceding FY is > 1 crore. But TDS is not deductible as an individual is not required to deduct TDS on royalty.
33. TDS is not deductible u/s 194J since the sum for each category is not > 30,000.
34. Kale is not a specified individual u/s 194C as he is not engaged in a business or profession. Sum is paid to a resident for carrying out 'work' and it is > 50 lakh. TDS is deductible u/s 194M @ 5% of 52,50,000, i.e., 2,62,500.
35. Golu is not a specified individual u/s 194H as turnover from business in preceding FY is not > 1 crore. TDS is also not deductible u/s 194M as the sum is not > 50 lakh.
36. Sanjay is not a specified individual u/s 194C as he is not engaged in a business or profession. Sum is paid to Mohan (assuming he is a resident) for carrying out 'work' and the aggregate is > 50 lakh. TDS is deductible u/s 194M @ 5% of 52,50,000, i.e., 2,62,500.
37. Tax audit limit is 1 crore as well as 10 crore based on the criteria specified u/s 44AB. If turnover of Mr. Avinash for PY 2021-22 was > 1 crore, he would be a specified individual u/s 194C. TDS deductible u/s 194C would be 1% of 55 lakh, i.e., 55,000. If turnover of Mr. Avinash for PY 2021-22 was not > 1 crore, he would not be a specified individual u/s 194C. In such case, TDS deductible u/s 194M would be 5% of 55 lakh (since the sum is > 50 lakh), i.e., 2,75,000.
38. Suman is a specified individual u/s 194H and 194C as turnover from business in preceding FY is > 1 crore. But TDS is not deductible on commission u/s 194H since amount is not > 15,000. TDS is not deductible u/s 194C since payment to contractor is made for personal purposes. TDS is also not deductible u/s 194M as payment to each person is not > 50 lakh.
39. Yugal is not a specified individual u/s 194C as gross receipts from profession in preceding FY is not > 50 lakh. TDS is deductible u/s 194M as the aggregate of sums paid during the FY is > 50 lakh. Exemption for payment for personal purposes is not available u/s 194M. TDS @ 5% of 55 lakh = 2,75,000.
40. Jugal is not a specified individual u/s 194C as turnover from business in the preceding FY is not > 1 crore. TDS is not deductible u/s 194C. TDS is also not deductible u/s 194M as the sum is not paid for 'work' since the contractor did not use the material purchased from Jugal or his associate.
41. Manav is not a specified individual covered u/s 194J as he is not engaged in a business or profession. Payment to lawyer is in the nature of FPS. Since payment is > 50 lakh, TDS will be deducted u/s 194M @ 5% of 51 lakh, i.e., 2,55,000.
42. Dheeraj is not a specified individual covered u/s 194J as he is not engaged in a business or profession. FTS is not covered u/s 194M. Thus, TDS is not deductible.
43. Rashi is a specified individual u/s 194H as gross receipts from profession in preceding FY is > 50 lakh. TDS is deductible u/s 194H @ 5% of 25,000, i.e., 1,250, since the amount is > Rs. 15,000. Consequently, section 194M is not applicable.

**B98-111. RENT** - Discuss the liability for tax deduction in the following cases:

1. S. 194-I - **CA2018(MAY)** – Mr. Bobby, a resident, whose turnover during the previous FY is Rs. 205 lakh and for the current FY 2022-23 is Rs. 80 lakh, made payment of shop rent to Mr. Rajasekharan, a resident, of Rs. 21,000 per month.
2. S. 194-I - **CA2017(NOV)** – Rent of Rs. 2,30,000 paid by a partnership firm for use of plant and machinery.
3. S. 194-I - **CA2011(NOV)** – Rent paid for hire of machinery by B Ltd. to Mr. Raman of Rs. 2,50,000 on 15.11.2022.
4. S. 194-I - Mr. Gupta, carrying on a business (turnover for PY 2021-22 Rs. 110 lakh and for PY 2022-23 Rs. 90 lakh) paid warehousing charges of Rs. 1 lakh to QR Pvt. Ltd during the PY 2022-23.
5. S. 194-I - Rashi & Co, a firm, paid rent of Rs. 3 lakh during the PY 2022-23 to Mr. C, a resident, for office premises which included Rs. 50,000 arrears for FY 2021-22, Rs. 50,000 advance for FY 2023-24 and Rs. 25,000 towards municipal taxes borne by the firm. Arrears were not liable to TDS during FY 2021-22.
6. S. 194-I - Bluesky Ltd. made payment of Rs. 1,00,000 as hire charges for machinery, Rs. 50,000 as hire charges for furniture and Rs. 2,00,000 as rent for office premises. These payments were made to Mr. K on 10.10.2022.
7. S. 194-I - Suresh, carrying on a business having turnover of Rs. 1.2 crore for FY 2021-22 and Rs. 95 lakh for FY 2022-23, paid shop rent of Rs. 2,50,000 to Raj on 21.1.2023.
8. S. 194-IB - **CA2019(NOV)** – Mr. Ashok, working in a private company, is on deputation for 3 months (from December 2022 to February 2023) at Hyderabad where he pays a monthly house rent of Rs. 52,000 for those three months, totaling to Rs. 1,56,000. Rent is paid by him on the first day of the relevant month.



9. S. 194-IB - **CA2018(NOV)** – Mr. X, a salaried individual, pays rent of Rs. 55,000 p.m. to Mr. Y (does not have PAN) from June 2022. Is he required to deduct TDS? If so, when is he required to deduct tax? Mr. X vacated the premises on 31.12.2022.
10. S. 194-IB - **CA2018(MAY)** – Mr. Thrilok, an individual not assessed to tax, pays rent of Rs. 60,000 per month.
11. S. 194-IB - **CA2021(DEC)** – Mr. Ramu, a salaried individual, has paid rent of Rs. 60,000 per month to Mr. Shiv Kumar from 1.7.2022 to 31.3.2023. Mr. Shiv Kumar has not furnished his Permanent Account Number.
12. S. 194-IB - Mr. UV, a salaried individual on deputation to Hyderabad, pays rent of Rs. 45,000 per month to BCD Pvt. Ltd. for the period September to December 2022. Rent is payable on first day of the relevant month.
13. S. 194-IB - Mr. B pays rent of Rs. 30,000 p.m. to Mr. C for use of building. Mr. B is a professional having gross receipts of Rs. 60 lakh for PY 2021-22 and Mr. C is a businessman having turnover of Rs. 75 lakh for PY 2021-22.
14. S. 194-IB - Mr. J, a salaried individual, pays house rent of Rs. 60,000 to Mr. K for staying in the house during the period 1.1.2023 to 20.1.2023. Both persons are resident in India.

- 
1. Mr. Bobby is a specified individual u/s 194-I as turnover from business in preceding FY is > 1 crore. Rent for the FY is > 2.4 lakh. TDS = 10% of 2,52,000 = 25,200. **Mistake by students – Did not consider exemption limit of 2.4 lakh.**
  2. TDS is not deductible u/s 194-I since rent is not > 2.4 lakh.
  3. Rent is > 2.4 lakh. TDS u/s 194-I @ 2% = 5,000.
  4. Mr. Gupta is a specified individual u/s 194-I as turnover from business in preceding FY is > 1 crore. Warehousing charges are in the nature of rent. But TDS is not deductible as rent for the FY is not > 2.4 lakh.
  5. TDS is deductible u/s 194-I. Municipal tax borne by tenant is excluded. Arrears and advance are not excluded. TDS @ 10% on 2.75 lakh = 27,500.
  6. Aggregate of rent paid to Mr. K for the FY is > 2.4 lakh. TDS deductible u/s 194-I = 2% on 1,00,000 and 10% on 2,50,000 = 27,000.
  7. Suresh is a specified individual u/s 194-I as turnover from business in preceding FY is > 1 crore. Rent is > 2.4 lakh. TDS = 10% of 2.5 lakh = 25,000.
  8. Mr. Ashok is not a specified individual covered u/s 194-I as he is not engaged in a business or profession. TDS is not deductible u/s 194-I. Monthly rent is > 50,000. TDS deductible u/s 194-IB = 5% of 1,56,000 = 7,800. This is to be deducted from the rent of February (last month of tenancy). Rent payable for February on 1.2.2023 = 52,000 – 7,800 = 44,200.
  9. Mr. X is not a specified individual covered u/s 194-I as he is not engaged in a business or profession. TDS is not deductible u/s 194-I. Monthly rent is > 50,000. Since PAN is not furnished, rate of TDS is 20% u/s 206AA. TDS @ 20% of 3,85,000 (rent from June to December) = 77,000. This is to be deducted from the rent of December (last month of tenancy) but it cannot exceed the amount of rent payable for that month. Thus, TDS = 55,000. Rent payable for the month of December will be Nil. **Mistake by students – Lack of clarity of provisions.**
  10. Rent is > 50,000 p.m. Mr. Thrilok will deduct TDS u/s 194-IB @ 5% of Rs. 7.2 lakh from the rent payable for March 2023 (last month of the PY), i.e., 36,000. It is assumed that rent is for land/building and is payable throughout the year.
  11. Mr. X is not a specified individual covered u/s 194-I as he is not engaged in a business or profession. TDS is not deductible u/s 194-I. Monthly rent is > 50,000. Since PAN is not furnished, rate of TDS is 20% u/s 206AA. TDS @ 20% of 5,40,000 = 1,08,000. This is to be deducted from the rent of March (last month of PY) but it cannot exceed the amount of rent payable for that month. Thus, TDS = 60,000. Rent payable for the month of March will be Nil.
  12. Mr. UV is not a specified individual covered u/s 194-I as he is not engaged in a business or profession. TDS is not deductible u/s 194-I. TDS is also not deductible u/s 194-IB as monthly rent is not > 50,000.
  13. Mr. B is a specified individual covered u/s 194-I as gross receipts from profession in the preceding FY is > 50 lakh. Rent for the FY is > 2.4 lakh. TDS u/s 194-I @ 10% of 3,60,000 = 36,000. Consequently, section 194-IB is not applicable.
  14. Mr. J is not a specified individual covered u/s 194-I as he is not engaged in a business or profession. TDS is not deductible u/s 194-I. Rent for part of month is > 50,000. TDS u/s 194-IB @ 5% of 60,000 = 3,000. Rent paid = 60,000 – 3,000 = 57,000.

**B112-119. IMMOVABLE PROPERTY - Discuss the liability for tax deduction in the following cases:**

1. S. 194-IA - **CA2019(MAY)** – Mr. Deepak transferred a residential house property to Mr. Karan for Rs. 45 lakh. The stamp duty value of such property is Rs. 55 lakh.
2. S. 194-IA - **CA2018(NOV)** – Mr. Dhanapal wishes to purchase a residential house costing Rs. 60 lakh from Ms. Saipriya. The house is situated at Chennai. He also wants to purchase agricultural lands in a rural area for Rs. 65 lakh. He wants to know whether there will be any obligation to deduct tax at source in these two situations. Both the buyer as well as the sellers are residents in India. Advise Mr. Dhanapal suitably.
3. S. 194-IA - **CA2015(MAY)** – Mr. Madan sold his house property in Surat as well as his rural agricultural land for a consideration of Rs. 65 lakh and Rs. 20 lakh, respectively, to Mr. Raman on 1.10.2022. He had purchased the house property for Rs. 40 lakh and the land for Rs. 15 lakh in the year 2017. There was no difference in the stamp valuation. You are required to determine TDS implications, if any, assuming both persons are resident Indians.

4. S. 194-IA - **CA2014(MAY)** – Mr. X sold his house to Mr. Y on 1.2.2023 for Rs. 60 lakh
5. S. 194-IA - Sushant sold his house property to Sohan for Rs. 48 lakh on 1.12.2022. He also transferred club membership of the housing complex and car parking for Rs. 5 lakh. Both parties are residents in India. Sushant failed to furnish his PAN to Sohan. SDV of the house property is Rs. 49 lakh.
6. S. 194LA - **CA2020(NOV)** – Rs. 2,29,000 paid to Mr. S, a resident individual, on 26.12.2022 by State of Gujarat on compulsory acquisition of his urban land.
7. S. 194LA - **CA2014(NOV)** – Rs. 3,00,000 is paid to Mr. A, a resident individual, on 22.2.2023 by the State of Uttar Pradesh on compulsory acquisition of his urban land.
8. S. 194LA - Delhi Government acquired the vacant plot of land owned by Ragini and paid compensation of Rs. 1.5 lakh on 15.4.2022. It further paid enhanced compensation of Rs. 1 lakh on 16.8.2022. Ragini computed the capital gain arising from this transaction at Rs. 1.75 lakh.

1. TDS is deductible u/s 194-IA since consideration of 45 lakh and SDV of 55 lakh are both not < 50 lakh. TDS = 1% of 55 lakh (higher of 45 lakh or 55 lakh) = 55,000.
2. TDS will be deducted u/s 194-IA @ 1% of 60 lakh, i.e., of 60,000. In absence of adequate information in the question, it is assumed that the consideration for transfer and SDV of house are both not < 50 lakh and SDV is not higher than the consideration. TDS is not deductible on transfer of rural agricultural land in India.
3. TDS will be deducted u/s 194-IA @ 1% of 65 lakh, i.e., 65,000, since the consideration for transfer and SDV of 65 lakh are both not < 50 lakh. TDS is not deductible on transfer of rural agricultural land (assuming it is in India).
4. TDS will be deducted u/s 194-IA @ 1% of 60 lakh, i.e., 60,000. In absence of adequate information in the question, it is assumed that the consideration for transfer and SDV of house are both not < 50 lakh and SDV is not higher than the consideration.
5. Consideration for transfer includes charges for club and parking. Consideration = 53 lakh. TDS is deductible u/s 194-IA since consideration of 53 lakh and SDV of 49 lakh are both not < 50 lakh. TDS = 20% of 53 lakh (higher of 53 lakh or 49 lakh) = 10.6 lakh. Since PAN is not furnished, 20% rate of TDS applies u/s 206AA.
6. TDS is not deductible u/s 194LA since payment is not > 2.5 lakh.
7. TDS is deductible u/s 194LA @ 10% of 3,00,000, i.e., 30,000, since payment is > 2,50,000, assuming land is not agricultural land.
8. TDS is not deductible u/s 194LA since the aggregate of payments during the FY of 2.5 lakh is not > 2.5 lakh.

**B120a – 120c. IMMOVABLE PROPERTY** – Compute the amount of income taxable, as well as tax deductible at source, in the following cases of transfer of a house property by Mr. J to Mr. K on 1.12.2022. The property was purchased by Mr. J for Rs. 45 lakh, 20 months back. Mr. J and Mr. K are residents in India.

Particulars	Case 1	Case 2	Case 3
Consideration for transfer to Mr. K	49,00,000	40,00,000	49,00,000
SDV of property	51,00,000	47,00,000	55,00,000

*Computation of income taxable and tax deductible at source*

Particulars	Case 1	Case 2	Case 3
<b>Short term capital gain in the hands of Mr. J (as period of holding is not &gt; 24 months):</b>			
Full value of consideration u/s 50C = Consideration, as SDV is not > 110% of consideration	49,00,000	-	-
Full value of consideration u/s 50C = SDV, as SDV is > 110% of consideration	-	47,00,000	55,00,000
Less: Cost of acquisition	45,00,000	45,00,000	45,00,000
	4,00,000	2,00,000	10,00,000
<b>Income taxable u/s 56(2)(x) in the hands of Mr. K:</b>			
Case 1: Excess of 2 lakh (SDV 51 lakh – Consideration 49 lakh) is > 50,000 but SDV is not > 110% of consideration. Hence, nothing is taxable.	Nil	-	-
Case 2: Excess of 7 lakh (SDV 47 lakh – Consideration of 40 lakh) is > 50,000 and SDV is > 110% of consideration. Hence, excess is taxable.	-	7,00,000	-
Case 3: Excess of 6 lakh (SDV 55 lakh – Consideration of 49 lakh) is > 50,000 and SDV is > 110% of consideration. Hence, excess is taxable.	-	-	6,00,000
<b>TDS deductible by Mr. K u/s 194-IA:</b>			
Case 1: TDS is deductible as consideration of 49 lakh and SDV of 51 lakh are both not < 50 lakh. TDS = 1% of 51 lakh (higher of 49 lakh or 51 lakh)	51,000	-	-
Case 2: TDS is not deductible as consideration of 40 lakh and SDV of 47 lakh are both < 50 lakh.	-	Nil	-
Case 3: TDS is deductible as consideration of 49 lakh and SDV of 55 lakh are both not < 50	-	-	55,000

lakh. TDS = 1% of 55 lakh (higher of 49 lakh or 55 lakh)

**B121-127k. TRADE & COMMERCE** - Discuss the liability for tax deduction in the following cases:

1. S. 194-O - Mr. Z, a resident, sells musical instruments on an e-commerce website. Gross sales value credited/paid during the FY 2022-23 is Rs. 10 lakh.
2. S. 194-O - Mr. Q, a resident and a doctor, provides consultancy services to patients on an online medical platform. The gross amount credited/paid in respect of services for the PY 2022-23 is Rs. 3 lakh. Mr. Q has furnished his Aadhaar number to the online platform but has not furnished his PAN.
3. S. 194-O - Mr. C, a resident in India and a businessman having a turnover of Rs. 1.5 crore for PY 2021-22, gets his website designed from Zoopla, a website designing platform, resident in India, and pays Rs. 5 lakh in this respect on 12.3.2023. His customers visit the website to learn about his business and products.
4. S. 194-O - Mr. Y, a resident, sells stationery products from his stationery shop as well as through Shopkart, an e-commerce website. His gross turnover from the business for the PY 2022-23 is Rs. 10 lakh out of which Rs. 4 lakh has been generated through Shopkart. Mr. Y has furnished his PAN number to Shopkart but has not furnished his Aadhaar number.
5. S. 194-O - **CA2022(MAY)** - XY, a partnership firm, is selling its product 'R' through the E-commerce Platform provided by AB Ltd. (E-commerce Operator). AB Ltd., credited in its books of account, the account of XY on 28.2.2023 by sum of Rs. 4,90,000 for the sale of product R, made during the month of February, 2023. Mr. Rai, who purchased product 'R' through the platform provided by AB Ltd. made payment of Rs. 60,000 directly to XY on 21.2.2023.
6. S. 194Q - Mr. Q, carrying on a manufacturing business, purchased machines for Rs. 1 crore from BCD Pvt. Ltd., an Indian company, during the FY 2022-23 for installation in his factory. He commenced his business on 1.4.2022. Turnover of BCD Pvt. Ltd. was Rs. 9.5 crore during FY 2021-22. Credit/payment was made on different dates during the FY 2022-23.
7. S. 194Q - In #6 above, assume that Mr. Q commenced business on 1.4.2021 and the turnover for FY 2021-22 was Rs. 12 crore.
8. S. 194R - Mr. Y, a disciple of Mr. Z, gave a car of value of Rs. 6 lakh to Mr. Z, a resident, on 1.12.2022 as he had been benefited from his preaching. Mr. Y carries on a business whose turnover is Rs. 80 lakh in FY 2021-22 and Rs. 90 lakh in FY 2022-23.
9. S. 194R - In #8 above assume that turnover from business of Mr. Y was Rs. 110 lakh in FY 2021-22.
10. S. 194R - D Mart Ltd. sold 20 mobile phones priced at Rs. 20,000 each to Mr. B, a resident and its dealer, at a rebate of 20%. As part of its promotional scheme, it also provided 5 mobile phones free along with this purchase.
11. S. 194R - Y Ltd. provided a mobile phone to Showri, a resident and a famous YouTuber, for making an unpacking video. It allowed Showri to retain the product after making the video. Y Ltd. charges Rs. 40,000 from its customers for the phone.
12. S. 194R - K Ltd. organized a dealer conference in Goa to educate all its dealers about important sales techniques. It incurred an expenditure of Rs. 75,000 on Mr. K, a resident and a high performing dealer, out of which Rs. 25,000 was on account of overstay of Mr. K for 3 days for undertaking a leisure trip to nearby areas of Goa.
13. S. 194R - X Ltd. provided benefit or perquisite, covered u/s 194R, of aggregate value Rs. 50,000 to Mr. Y during the FY 2022-23. Benefit or perquisite was provided on 15.6.2022.
14. S. 194R - X Ltd. provided benefit or perquisite, covered u/s 194R, of aggregate value Rs. 50,000 to Mr. Y during the FY 2022-23. Benefit or perquisite was provided on 15.7.2022.
15. S. 194R - X Ltd. provided benefit or perquisite, covered u/s 194R, of aggregate value Rs. 20,000 to Mr. Y during the FY 2022-23. Benefit or perquisite of value Rs. 10,000 was provided on 15.6.2022 and benefit of perquisite of value of Rs. 10,000 was provided on 15.7.2022.
16. S. 194R - X Ltd. provided benefit or perquisite, covered u/s 194R, of aggregate value Rs. 60,000 to Mr. Y during the FY 2022-23. Benefit or perquisite of value Rs. 50,000 was provided on 15.6.2022 and benefit of perquisite of value of Rs. 10,000 was provided on 15.7.2022.
17. S. 194R - X Ltd. provided benefit or perquisite, covered u/s 194R, of aggregate value Rs. 60,000 to Mr. Y during the FY 2022-23. Benefit or perquisite of value Rs. 10,000 was provided on 15.6.2022 and benefit of perquisite of value of Rs. 50,000 was provided on 15.7.2022.

- 1. E-commerce operator will deduct TDS u/s 194-O @ 1% of 10 lakh = 10,000.
- 2. TDS is not deductible u/s 194-O since Mr. Q has furnished his Aadhaar number to the online medical platform and gross amount of services is not > 5 lakh.
- 3. TDS is not deductible u/s 194-O by Zoopla since Mr. C does not provide services facilitated by Zoopla through its website. However, Mr. C is a specified individual u/s 194J as turnover from business in preceding FY is > 1 crore. Service is by way of FPS and sum paid is > Rs. 30,000. TDS u/s 194J deductible by Mr. C = 10% of 5 lakh = 50,000.
- 4. Since gross amount of sales through Shopkart, the e-commerce operator, is not > 5 lakh and Mr. Y has furnished his PAN, TDS will not be deducted u/s 194-O by Shopkart.
- 5. Sale of product is facilitated by AB Ltd. through its platform. TDS is deductible u/s 194-O @ 1% of 5,50,000, i.e., 5,500. TDS is deductible at the time of earlier of credit or payment, i.e., 28.2.2023. Direct payment by Mr. Rai to the firm, for sale through

the platform, is deemed to be the amount credited/paid by AB Ltd. to the firm and is included in the gross amount of sale for deducting TDS.

6. TDS is not deductible u/s 194Q as turnover of business of Mr. Q is not > 10 crore in FY 2021-22.
7. Turnover of business of Mr. Q of preceding FY is > 10 crore. Sum credited/paid during the FY is > 50 lakh. Seller is a resident. TDS u/s 194Q = 0.1% of 50 lakh (sum exceeding 50 lakh) = 5,000.
8. It is a benefit or perquisite arising from the exercise of a vocation, i.e., a profession exercised by Mr. Z and the value thereof is > 20,000. However, TDS is not deductible by Mr. Y u/s 194R as turnover from his business in the preceding FY is not > 1 crore.
9. As turnover in business in preceding FY is > 1 crore, Mr. Y is required to deduct TDS u/s 194R. Since the benefit or perquisite is wholly in kind, Mr. Y should ensure, before releasing the car, that TDS required to be deducted has been paid. TDS @ 10% = 60,000.
10. While the benefit in terms of rebate and free mobile phones is a benefit related to sale/purchase arising from business of Mr. B and having value > 20,000, TDS is not deductible u/s 194R in view of the relaxation provided by Circular 12/2022.
11. It is a benefit or perquisite arising from exercise of profession by Showri. Value is 40,000, being the price charged by Y Ltd. from its customers. TDS is deductible u/s 194R as value is > 20,000 and the phone is retained by Showri and not returned to Y Ltd. Since the benefit or perquisite is wholly in kind, Y Ltd. should ensure, before releasing the phone, that TDS required to be deducted has been paid. TDS @ 10% = 4,000.
12. Expenditure of 50,000 is not a benefit/perquisite arising from business as it pertains to dealer conference to educate about sales techniques. However, the remaining expenditure constitutes benefit/perquisite and is liable to TDS u/s 194R. Since the value is > 20,000, TDS is deductible @ 10% of 25,000, i.e., 2,500.
13. TDS is not deductible u/s 194R as benefit or perquisite is not provided on or after 1.7.2022.
14. TDS is deductible u/s 194R on benefit or perquisite provided on or after 1.7.2022 as value is > 20,000 for the FY. TDS @ 10% = 5,000.
15. TDS is not deductible u/s 194R as value is not > 20,000 for the FY.
16. TDS is deductible u/s 194R on benefit or perquisite provided on or after 1.7.2022 as value is > 20,000 for the FY. TDS @ 10% = 1,000.
17. TDS is deductible u/s 194R on benefit or perquisite provided on or after 1.7.2022 as value is > 20,000 for the FY. TDS @ 10% = 5,000.

**B128-138. SPECIAL CASES** - Discuss the liability for tax deduction in the following cases:

1. S. 194E - **CA2021(JULY)** – A payment of Rs. 1,00,000 made to Jack Smith, a New Zealand cricketer, a non-resident in India, on 20.12.2022 by a sports magazine for contribution of a sports article.
2. S. 194E - **CA2020(NOV)** – Payment of Rs. 26,000 made to Mr. Y, a French footballer, non-resident in India, by an Indian newspaper on 1.7.2022 for contribution of articles in relation to the sport of football.
3. S. 194E - **CA2019(NOV)** – An advertisement company paid Rs. 5 lakh to a cricketer, Mr. Peter from England, for working in an advertisement film.
4. S. 194E - **CA2014(NOV)** – Payment of Rs. 27,000 made to Jacques Kallis, a South African cricketer, by an Indian newspaper agency on 2.7.2022 for contribution of articles in relation to the sport of cricket.
5. S. 194N - **CA2021(JULY)** – Payer: XYZ Urban Co-operative Bank. Nature of payment: Payment by way of cash withdrawal, by ABC & Co, a resident partnership firm, amounting to Rs. 1.2 crore during FY 2022-23. ABC & Co, has filed tax returns for the last 3 financial years within time.
6. S. 194N - Mr. C withdrew cash of Rs. 50 lakh on 1.2.2023 from Account I and Rs. 60 lakh on 1.3.2023 from Account II held with Punjab National Bank. He has been duly filing his return since the last 7 years.
7. S. 194N - Mr. D, running a transport agency, withdrew cash of Rs. 70 lakh from his account in SBI and Rs. 70 lakh from his account in HDFC Bank during the PY 2022-24. He has been duly filing his return since the last 10 years.
8. S. 194N - Mr. G, a real estate broker, withdrew Rs. 1.5 crore from his account in Wealth Co-operative Bank on 15.1.2023. He has not been filing his return of income since the last 10 years.
9. S. 194N - During the PY, Mr. G, a transporter, withdrew Rs. 25 lakh from his account in Post Office on 15.11.2022. He has not been filing his return of income since the last five years.
10. S. 194P - Mr. Z, a resident of age 75 years, is a pensioner receiving Rs. 55,000 p.m. as pension in the Jaipur branch of National Bank. The Bank is specified u/s 194P. He also maintains a fixed deposit in Delhi branch of National Bank. Interest on savings account with Jaipur branch and on fixed deposit account with Delhi branch is Rs. 1,00,000 for the PY 2022-23. He has no other income. Mr. Z wants to know whether he is required to file return u/s 139(1) for the PY 2022-24 and whether he needs to pay any tax from his end. He has not opted for section 115BAC and has furnished the prescribed declaration u/s 194P to National Bank.
11. S. 194P - In #11 above, assume that while Mr. Z was a resident for PY 2021-22, he is a non-resident for PY 2022-23.



1. Jack Smith is a sportsman being a non-resident and not a citizen of India. TDS is to be deducted u/s 194E @ 20% + 4% HEC, i.e., 20,800. There is no threshold for TDS.
2. Mr. Y is a sportsman being a non-resident and not a citizen of India. TDS is to be deducted u/s 194E @ 20% + 4% HEC, i.e., 5,408. There is no threshold for TDS.
3. Mr. Peter is a sportsman being a non-resident and not a citizen of India. TDS is to be deducted u/s 194E @ 20% + 4% HEC, i.e., 1,04,000. There is no threshold for TDS.
4. Jacques Kallis is a sportsman being a non-resident and not a citizen of India. TDS is to be deducted u/s 194E @ 20% + 4% HEC, i.e., 5,616. There is no threshold for TDS.
5. It is assumed that the firm has duly filed the return for all of the 3 PYs, for which the time limit to file return u/s 139(1) has expired, immediately preceding the PY 2022-23. Hence, threshold u/s 194N is 1 crore. TDS u/s 194N @2% of 1.2 crore = 2.4 lakh.
6. Mr. C has duly filed the return for all of the 3 PYs, for which the time limit to file return u/s 139(1) has expired, immediately preceding the PY 2022-23. Hence, threshold u/s 194N is 1 crore. Since payments during the PY from both accounts held with PNB is > 1 crore, bank will deduct TDS @2% of 1.1 crore, i.e., 2.2 lakh.
7. Mr. D has duly filed the return for all of the 3 PYs, for which the time limit to file return u/s 139(1) has expired, immediately preceding the PY 2022-23. Hence, threshold u/s 194N is 1 crore. TDS is not deductible u/s 194N since payment by each bank during the PY is not > 1 crore.
8. Mr. G has not filed the return for all of the 3 PYs, for which the time limit to file return u/s 139(1) has expired, immediately preceding the PY 2022-23. Since the sum is > 1 crore, TDS u/s 194N = 5% of 1.5 crore = 7.5 lakh.
9. Mr. G has not filed the return for all of the 3 PYs, for which the time limit to file return u/s 139(1) has expired, immediately preceding the PY 2022-23. Hence, threshold is 20 lakh. TDS is deductible u/s 194N @ 2% of 25 lakh, since payment during the PY is > 20 lakh and up to 1 crore. TDS = 50,000.
10. Mr. Z is a resident individual of age 75 years or more during the PY, he has income from pension and interest from the same specified bank and no other income and he has furnished the prescribed declaration to the Bank. Conditions of section 194P are satisfied. The bank will compute his total income for PY 2022-23 (after allowing deduction u/s 80TTB and rebate u/s 87A, as applicable) and deduct TDS u/s 194P at the rates in force (after considering TDS already deducted, if any). Mr. Z will not be required to file his return u/s 139(1) or pay tax from his end for AY 2023-24 since entire tax on his total income would be deducted at source.
11. Section 194P is not applicable to a non-resident. Mr. Z will be required to file return u/s 139(1) for AY 2023-24. TDS u/s 192 will apply on pension and TDS u/s 194A will apply on interest on fixed deposit. He will need to discharge tax liability (net of TDS).

**B139. S. 194N - CA2020(NOV) - Briefly explain the provisions relating to TDS on cash withdrawal u/s 194N. – Refer para 218 of Concepts Book.**

**B140-142. 206AA/206AB - Discuss the liability for tax deduction in the following cases:**

1. Mr. Z, a resident, received Rs. 10 lakh on 12.7.2022 as compensation for compulsory acquisition of his building from the local authority. He furnished his PAN to the local authority. He has not furnished the return for the AY relevant to the PY immediately preceding FY 2022-23, for which time limit for furnishing return u/s 139(1) has expired and aggregate of TDS deducted and TCS collected in his case is Rs. 40,000 in the said PY.
2. JK LLP paid rent of Rs. 1 lakh per month to Mr. C, a resident, in respect of certain plant and machinery taken on hire during the period October 2022 to March 2023. Mr. C is a regular filer of return ever since he started earning his income from the year 2011. Total amount of TDS and TCS deducted/collected in his case has been Rs. 50,000 or more in all these years. He did not furnish his PAN to JK LLP.
3. CK Ltd. paid Rs. 5 lakh to Mr. J, a resident, on 10.7.2022 towards a catering contract. Mr. J furnished his PAN to CK Ltd. He has not furnished the return for the AY relevant to the PY immediately preceding FY 2022-23, for which time limit for furnishing return u/s 139(1) has expired and aggregate of TDS deducted and TCS collected in his case is Rs. 60,000 in the said PY.

- 
1. TDS is deductible u/s 194LA. Regular rate of TDS is 10%. Section 206AA is not applicable as PAN is furnished. Mr. Z has not furnished the return for the AY relevant to the PY immediately preceding FY 2022-23, for which time limit for furnishing return u/s 139(1) has expired but aggregate of TDS deducted and TCS collected in his case is < 50,000 in the said PY. Hence, section 206AB is not applicable. TDS = 10% of 10 lakh = 1 lakh.
  2. TDS is deductible u/s 194-I. Regular rate of TDS is 2%. Section 206AA applies as PAN is not furnished. Mr. C has furnished the return for the AY relevant to the PY immediately preceding FY 2022-23, for which time limit for furnishing return u/s 139(1) has expired. Hence, section 206AB is not applicable. Rate of TDS u/s 206AA is higher of 2% or 20% = 20%. TDS = 20% of 6 lakh = 1.2 lakh.
  3. TDS is applicable u/s 194C. Regular rate of TDS is 1%. Section 206AA is not applicable as PAN is furnished. Mr. J has not furnished the return for the AY relevant to the PY immediately preceding FY 2022-23, for which time limit for furnishing return

u/s 139(1) has expired and aggregate of TDS deducted and TCS collected in his case is not < 50,000 in the said PY. Hence, section 206AB is applicable and TDS rate will be higher of 2% (twice of 1%) or 5%, i.e., 5%. TDS = 5% of 5 lakh = 25,000.

**B143. CA2021(JULY)** – Mr. X, a resident individual carrying on trading business has a turnover of Rs. 1.25 crore during PY 2021-22. He made a payment of Rs. 50,000 to Mr. Y, a contractor on 1.5.2022 for some contract work without deducting tax at source. What are the circumstances under which Mr. X will not be deemed to be an assessee-in-default u/s 201 for not deducting tax at source?

Mr. X is a specified individual covered u/s 194C as turnover from business in the preceding FY is > 1 crore. He is required to deduct TDS u/s 194C @ 1% of 50,000. Since he has not deducted TDS, he will be deemed to be an assessee in default. However, he will not be deemed to be an assessee in default if the conditions referred to in para 223.1 of Concepts Book are fulfilled. **Mistake by students – Lack of knowledge.**

**B144-146. INTEREST U/S 201(1A)** – Determine whether interest will be chargeable u/s 201(1A) in the following cases of TDS deductible u/s 194H:

#	Amount of TDS	Date of earlier of payment or credit	Date when TDS is deducted	Date when TDS is paid
1	20,000	10.7.2022	15.7.2022	6.8.2022
2	30,000	18.9.2022	18.9.2022	10.1.2023
3	40,000	10.7.2022	10.7.2022	7.8.2022

- TDS is deducted late by 5 days but is paid on time (within 7 days from the end of the month in which TDS is deducted). Interest u/s 201(1A) = 1% p.m. of 20,000 for 1 month (date on which TDS was deductible to the date on which TDS is deducted; part of month is taken as 1 month) = 200.
- TDS is deducted on time but is paid late (beyond 7.10.2022, i.e., 7 days from the end of the month in which TDS is deducted). Interest u/s 201(1A) = 1.5% p.m. of 30,000 for 4 months (date on which TDS is deducted to the date on which TDS is actually paid; part of month is taken as 1 month) = 1,800.
- TDS is deducted on time and also paid on time (within 7 days from the end of the month in which TDS is deducted). Interest is not chargeable u/s 201(1A).

**B147. INTEREST U/S 201(1A)** - Mr. B paid fees for professional service of Rs. 40,000 to Mr. C on 1.7.2022 without deducting TDS. He again made similar payment to Mr. C of Rs. 50,000 on 28.2.2023 from which he deducted TDS @ 10% u/s 194J on the entire amount of Rs. 90,000. However, he deposited the TDS to the account of the Central Government on 22.6.2023. Compute the interest chargeable u/s 201(1A).

TDS on 40,000 is not deducted on 1.7.2022. It is deducted on 28.2.2023. TDS on 50,000 is deducted on 28.2.2023, i.e., on time. It is assumed that TDS was deductible on the date of the respective payments. TDS in both instances is deposited beyond 7 days from the end of the month in which TDS is deducted. Hence, interest is chargeable u/s 201(1A).

*Computation of interest chargeable u/s 201(1A)*

Particulars	Rs.
Interest for late deduction of TDS = 1% p.m. of 4,000 (10% of 40,000) for 8 months (1.7.2022 to 28.2.2023; part of a month is taken as 1 month)	320
Interest for late payment of TDS = 1.5% p.m. of 9,000 (10% of 90,000) for 4 months (1.3.2023 to 22.6.2023)	540
	<b>860</b>

**B148. S. 201 – CA2015(NOV)** – What are the consequences of failure to deduct or pay the tax u/s 201? – Refer para 223 of Concepts Book

**COLLECTION OF TAX AT SOURCE (TCS)**

**B149-162a. TCS** - Discuss the liability for TCS (or TDS, if applicable) in the following cases:

- S. 206C(1) - Mr. Q operates a liquor shop which sells alcohol to buyers for personal consumption. Turnover of business was Rs. 105 lakh for FY 2021-22 and Rs. 95 lakh for FY 2022-23.
- S. 206C(1) - B Ltd. sold scrap to Mr. K, a resident and a scrap dealer, for Rs. 50,000. Mr. K would sell the scrap to another scrap dealer. He did not furnish his PAN to B Ltd.
- S. 206C(1) - CK LLP sold timber to Mr. T, a resident, for Rs. 5 lakh. Mr. T uses timber purchased to manufacture furniture. He furnished declaration to this effect to CK LLP.
- S. 206C(1F) - Motor vehicle worth Rs. 20 lakh is sold by ABC Pvt. Ltd. to its retail customers for which payments are made in instalments, Rs. 5 lakh at the time of booking on 1.8.2022 and Rs. 15 lakh at the time of delivery on 1.9.2022.

5. S. 206C(1F) - **CA2018(NOV)** – Rahil & Co, a partnership firm, is having a car dealership showroom. They have purchased cars for Rs. 2 crore from XYZ Ltd., car manufacturers, the cost of each car being more than Rs. 10 lakh. They sell the cars to individual buyers at a price yielding 10% margin on cost. State whether there will be any obligation to collect tax in the above two situations.
  6. S. 206C(1F) - Mr. K HUF is a car retail dealer having turnover from business of Rs. 2 crore for PY 2021-22 and Rs. 75 lakh for PY 2022-23. It sold Car 1 to Mr. Q on 1.1.2023 for Rs. 15 lakh, Car 2 to the State Government on 15.1.2023 for Rs. 12 lakh, Car 3 to PQR Pvt. Ltd. on 1.2.2023 for Rs. 10 lakh and Cars 4 and 5 to Mr. B for Rs. 6 lakh each on 1.3.2023 and 15.3.2023.
  7. S. 206C(1G) - An authorized dealer received the following amounts during the FY 2022-23 for remittance abroad under the Liberalized Remittance Scheme of the RBI: Rs. 6 lakh from Mr. P for maintenance of his parents, Rs. 10 lakh from Mr. Q being loan taken from an Indian Bank for higher education, Rs. 12 lakh from Mr. R for medical treatment of relative (Rs. 6 lakh each received on 15.11.2022 and 30.11.2022). All persons, except Mr. R, furnished their PAN.
  8. S. 206C(1G) - **CA2021(DEC)** – Mr. Kalpit bought an overseas tour programme package for Singapore for himself and his family of Rs. 5 lakhs on 1.11.2022 from an agent who is engaged in organising foreign tours in course of his business. He made the payment by an account payee cheque and provided the PAN to the seller. Assume Kalpit is not liable to deduct tax at source under any other provisions of the Act.
  9. S. 206C(1G) - Ghumo World, a travel agency, received the following amounts during the FY 2022-23: Rs. 30,000 from Mr. G for ticket booking for local travel in Malaysia, Rs. 2 lakh from Mr. J for an all-inclusive tour program package for travel to Singapore, Rs. 1.5 lakh from Mr. K for an all-inclusive tour program package to Kerala.
  10. S. 206C(1H) - **CA2021(DEC)** – Mr. Anu is doing business of textile as a proprietor. His turnover in the business is Rs. 11 crores in the PY 2021-22. He received payment against sale of textile goods from Mr. Ram of Rs. 75 lakhs against the sales made to him in the PY and preceding PYs (assume that all the sales are domestic sales and Mr. Ram is neither liable to deduct tax on the purchase from Mr. Anu nor he deducted any tax at source).
  11. S. 206C(1H) - PQR Ltd., having turnover of Rs. 9 crore for FY 2021-22 and Rs. 15 crore for FY 2022-23 received Rs. 75 lakh from BK & Co, partnership firm, towards sale of computers. BK & Co, is a law firm, having gross receipts of 12 crore for FY 2021-22 and Rs. 10 crore for FY 2022-23.
  12. S. 206C(1H) - Cars Ltd., a car dealer having turnover of Rs. 25 crore for FY 2021-22, sold 6 cars to Mr. Rich during March 2023 (consideration was received immediately), each for Rs. 9 lakh. Business turnover of Mr. Rich was Rs. 8 crore for FY 2021-22 and Rs. 11 crore for FY 2022-23.
  13. S. 206C(1H) – In #12 above, assume that Mr. Rich did not furnish his PAN to Cars Ltd.
  14. S. 206C(1H) - Cars & Co., a partnership firm and dealer in cars, purchased 10 cars of Rs. 15 lakh each during January 2023 from Honda Cars Ltd., an Indian car manufacturer having turnover of Rs. 15 crore in FY 2021-22. Payment was made in February 2023. Turnover of Cars & Co. was Rs. 12 crore for FY 2021-22 and Rs. 9 crore for FY 2022-23.
  15. During the PY 2022-23, the Government of Jharkhand granted a lease of coal mine to Swayam Ltd., an Indian company, and charged Rs. 1 crore for the same. Swayam Ltd. mined the coal and sold it to Kalka Ltd., an Indian company, for Rs. 70 lakh. Kalka Ltd. furnished a declaration to Swayam Ltd. that it would use the coal for the purpose of generation of power and not for trading. Turnover of business of Swayam Ltd. and Kalka Ltd. was Rs. 15 crore and Rs. 20 core during the FY 2021-22, respectively.
- 
1. Mr. Q is a specified individual covered u/s 206C(1) as turnover from business in the preceding FY is > 1 crore. However, TCS is not collectible by Mr. Q since buyers have purchased the liquor in retail sale for personal consumption.
  2. Scrap is covered as a specified good. Since PAN is not furnished, rate of TCS u/s 206CC is 5% (i.e., higher of 2% (twice the regular rate of 1%) or 5%). TCS to be collected by B Ltd. from Mr. K = 5% of 50,000 = 2,500.
  3. Timber is covered as a specified good. However, TCS is not collectible u/s 206C(1) since prescribed declaration is given by the buyer, resident in India, to the seller that goods are to be utilized for manufacturing and not for trading purposes.
  4. Value of motor vehicle is > 10 lakh. TCS will be collected u/s 206C(1F) @ 1% on receipt of Rs. 5 lakh at time of booking (i.e., Rs. 5,000) and on receipt of Rs. 15 lakh at time of delivery (i.e., 15,000).
  5. Sale by XYZ Ltd. to Rahil & Co. – TCS will not be collected u/s 206C(1F) as it is not a retail sale. TCS liability will need to be examined u/s 206C(1H). Sale by Rahil & Co to individual buyers – Value of each car is > 10 lakh. The firm will collect TCS u/s 206C(1F) @ 1% on the receipt of consideration. Consideration per car = 11 lakh. TCS per car will be 11,000.
  6. Mr. K HUF is a specified HUF covered u/s 206C(1F) as turnover from business in the preceding FY is > 1 crore. Sale to Mr. Q: HUF will collect TCS @ 1% of 15 lakh u/s 206C(1F), i.e., 15,000. Sale to State Government: State Government is not covered as a buyer u/s 206C(1F). Hence, TCS will not be collected. Sale to PQR Pvt. Ltd.: TCS will not be collected u/s 206C(1F) since value is not > 10 lakh. Sale to Mr. B: TCS will not be collected u/s 206C(1F) since value of each car is not > 10 lakh.
  7. Mr. P: TCS is not collectible u/s 206C(1G) as amount remitted during the FY is < 7 lakh. Mr. Q: TCS u/s 206C(1G) is collectible @ 0.5% of 3 lakh (being the amount exceeding Rs. 7 lakh during the FY), i.e., 1,500. Mr. R: TCS u/s 206C(1G) @ 10% (being the

- higher of 10% (twice the regular rate of 5%) or 5% in terms of section 206CC since PAN is not furnished) on 5 lakh (being the amount exceeding Rs. 7 lakh during the FY) will be collected on 30.11.2022, i.e., TCS of 50,000.
8. Receipt is from the buyer who has purchased an overseas tour program package. The agent will collect TCS u/s 206C(1G) @ 5% of 5 lakh, i.e., 25,000. *Mistake by students: Lack of knowledge and understanding of provisions.*
  9. Mr. G: TCS will not be collected u/s 206C(1G) from Mr. G as receipt is not on account of an overseas tour program package. Mr. J: TCS will be collected from Mr. J u/s 206C(1G) @ 5% of 2 lakh, i.e., 10,000. Mr. K: TCS will not be collected from Mr. K u/s 206C(1G) as the tour is not outside India.
  10. Business turnover of Mr. Anu is > 10 crore in the preceding FY, sale consideration is > 50 lakh. TCS is collectible u/s 206C(1H). TCS = 0.1% of 25 lakh (75 lakh – 50 lakh) = 2,500. TCS provisions are attracted even though part of sales may relate to preceding years. *Mistake by students: Lack of knowledge and understanding of provisions.*
  11. TDS is not deductible by the buyer u/s 194Q since it does not carry on a business. TCS is not collectible u/s 206C(1H) since turnover of the seller for the preceding year is not > 10 crore.
  12. TCS is not collectible u/s 206C(1F) since value of each car is not > Rs. 10 lakh. TDS is not deductible u/s 194Q as turnover of buyer for the preceding FY is not > 10 crore. TCS will be collected u/s 206C(1H) since turnover of seller for the preceding FY is > 10 crore, sale consideration is > 50 lakh, goods are not covered u/s 206C(1F) and buyer is not liable to deduct TDS u/s 194Q. TCS u/s 206C(1H) @ 0.1% on 4 lakh (54 lakh – 50 lakh) = 400.
  13. Since PAN is not furnished by the buyer to the seller, rate of TCS, by virtue of section 206CC, will be higher of twice the regular rate of 0.1% or 1%, i.e., 1%. TCS u/s 206C(1H) @ 1% on 4 lakh (54 lakh – 50 lakh) = 4,000.
  14. Though value of each car is > 10 lakh, TCS is not collectible u/s 206C(1F) by Honda Cars Ltd., the seller, as it is not a retail sale. TDS is deductible u/s 194Q by Cars & Co., the buyer, since turnover of buyer for the preceding FY is > 10 crore, seller is a resident, the sum paid during the FY is > 50 lakh, TDS is not deductible under any other provision and TCS is not collectible on the transaction (other than u/s 206C(1H)). TDS u/s 194Q = 0.1% of 100 lakh (150 lakh – 50 lakh) = 10,000. TCS will not be collected u/s 206C(1H) since the buyer is liable to deduct TDS u/s 194Q and has deducted TDS (presumed).
  15. TCS is collectible u/s 206C(1C) for grant of lease for the use of mine for the purpose of business. Hence, Government of Jharkhand will collect TCS @ 2% of Rs. 1 crore, i.e., Rs. 2 lakh, from Swayam Ltd. Swayam Ltd. sells coal to Kalka Ltd. Coal is a specified good u/s 206C(1). However, Swayam Ltd. will not collect TCS u/s 206C(1) since Kalka Ltd. has furnished the declaration to the effect that coal will be used for the purpose of generation of power and not for trading. Although turnover from business of Swayam Ltd. is > 10 crore in the preceding FY and it has received consideration for sale of coal of the value > 50 lakh, it will also not collect TCS u/s 206C(1H) as coal is covered u/s 206C(1). Kalka Ltd. is a buyer having turnover from business of > 10 crore in the preceding FY, Swayam Ltd. (the seller) is a resident, the sum for purchase of coal is > 50 lakh and it is a transaction on which TCS is not collectible u/s 206C (other than u/s 206C(1H)). Hence, Kalka Ltd. will deduct TDS u/s 194Q @ 0.1% of 20 lakh (70 lakh – 50 lakh), i.e., 2,000.

**B163. 206C(1F) – CA2019(NOV)** – What are the clarifications made by CBDT with respect to section 206C(1F) relating to following issues: (1) Whether TCS on sale of motor vehicle is applicable only to luxury car? (2) Whether TCS is applicable on each sale or aggregate value of sale of motor vehicles, exceeding Rs. 10 lakh?

- (1) No; (2) On each sale. Refer para 224 of Concepts Book.

#### ADVANCE TAX

**B164. ADVANCE TAX – CA2020(NOV)** – Mr. K furnished the following information for the year ended 31.3.2023:

Particulars	Rs.
Income from business	40,000
Lottery winnings (gross)	6,00,000
Income by way of salary (computed)	90,000
Loss from house property	20,000

Compute his total income, tax liability and advance tax obligations.

■

*Computation of total income, tax liability and advance tax obligation of Mr. K*

Particulars	Rs.
Income from salary (computed)	90,000
Loss from house property set off u/s 71	(20,000)
	70,000
Income from business	40,000
Lottery winnings (gross)	6,00,000
<b>Total income</b>	<b>7,10,000</b>



Tax on lottery income @ 30% of 6,00,000	1,80,000
Tax on balance income of 1,10,000 at regular rates	-
	1,80,000
Less: Rebate u/s 87A (not available as total income is > 5 lakh)	-
	1,80,000
Add: Surcharge (not applicable as total income is not > 50 lakh)	-
	1,80,000
Add: HEC @ 4%	7,200
	1,87,200
Less: Tax deducted at source @ 30% on 6,00,000 u/s 194B since winning is > threshold of 10,000	(1,80,000)
<b>Advance tax</b>	<b>7,200</b>

Advance tax is not payable as it is < 10,000.

**B165. ADVANCE TAX** - Compute the advance tax liability of Mr. X, aged 45 years, from the following particulars for FY 2022-23 along with the due dates:

Particulars	Rs.
Total estimated tax on total income	3,25,000
Tax deductible at source but not deducted	50,000
Tax collected at source	25,000

■ Advance tax payable = Total estimated tax on total income 3,25,000 – Tax collected at source 25,000 = 3,00,000. TDS deductible but not deducted is not to be reduced. Instalments of advance tax are to be paid as given below:

Due date of instalment	Amount payable	
On or before 15 June	Not less than 15% of the advance tax	15% of 3,00,000 = 45,000
On or before 15 September	Not less than 45% of the advance tax – Amount, if any, paid in the earlier instalment	45% of 3,00,000 – 45,000 = 90,000
On or before 15 December	Not less than 75% of the advance tax – Amount(s), if any, paid in the earlier instalment(s)	75% of 3,00,000 – 1,35,000 = 90,000
On or before 15 March	100% of the advance tax – Amount(s), if any, paid in the earlier instalment(s)	100% of 3,00,000 – 2,25,000 = 75,000

**B166. ADVANCE TAX** - Mr. C has estimated the total tax payable for FY 2022-23 at Rs. 4,50,000. TDS, deductible but not deducted, is Rs. 50,000. Compute the advance tax payable with the due dates.

■ Advance tax payable = 4,50,000. TDS deductible but not deducted will not be reduced. Instalments of advance tax to be paid are given below:

Due date of instalment	Amount payable	
On or before 15 June	Not less than 15% of the advance tax	15% of 4,50,000 = 67,500
On or before 15 September	Not less than 45% of the advance tax – Amount, if any, paid in the earlier instalment	45% of 4,50,000 – 67,500 = 1,35,000
On or before 15 December	Not less than 75% of the advance tax – Amount(s), if any, paid in the earlier instalment(s)	75% of 4,50,000 – 2,02,500 = 1,35,000
On or before 15 March	100% of the advance tax – Amount(s), if any, paid in the earlier instalment(s)	100% of 4,50,000 – 3,37,500 = 1,12,500

**B167. ADVANCE TAX** - Mr. J, age 42 years, estimates on 1.4.2022, the total tax payable for FY 2022-23 at Rs. 1,00,000. Due to increase in income, he revises the estimate to Rs. 1,50,000 on 1.11.2022. Due to an unforeseen loss of income, he again revises his estimate on 1.3.2023 to Rs. 1,15,000. Compute the advance tax instalments with due dates.

Due date of instalment	Amount payable	
On or before 15 June	Not less than 15% of the advance tax	15% of 1,00,000 = 15,000
On or before 15 September	Not less than 45% of the advance tax – Amount, if any, paid in the earlier instalment	45% of 1,00,000 – 15,000 = 30,000

On or before 15 December	Not less than 75% of the advance tax – Amount(s), if any, paid in the earlier instalment(s)	75% of 1,50,000 – 45,000 = 67,500
On or before 15 March	100% of the advance tax – Amount(s), if any, paid in the earlier instalment(s)	100% of 1,15,000 – 1,12,500 = 2,500

**B168. ADVANCE TAX - CA2016(NOV)** – Mr. Barun provides you the following information and requests you to determine the advance tax liability with due dates for the FY 2022-23.

Estimated tax liability for FY 2022-23: Rs. 65,000

TDS for this year: Rs. 5,000

■ Advance tax payable = 65,000 estimated tax liability – 5,000 (assuming TDS is deducted) = 60,000. Instalments of advance tax to be paid are given below:

Due date of instalment	Amount payable	
On or before 15 June	Not less than 15% of the advance tax	15% of 60,000 = 9,000
On or before 15 September	Not less than 45% of the advance tax – Amount, if any, paid in the earlier instalment	45% of 60,000 – 9,000 = 18,000
On or before 15 December	Not less than 75% of the advance tax – Amount(s), if any, paid in the earlier instalment(s)	75% of 60,000 – 27,000 = 18,000
On or before 15 March	100% of the advance tax – Amount(s), if any, paid in the earlier instalment(s)	100% of 60,000 – 45,000 = 15,000

**B169. ADVANCE TAX - CA2018(NOV), 2017(NOV)** – Mr. Dheeraj, a resident individual, is a dealer in food grains. During the PY 2021-22, total turnover of his business was Rs. 80 lakh (out of which Rs. 15 lakh was received in account payee cheque and balance in cash). He estimates similar turnover in PY 2022-23. As suggested by his tax consultant, Mr. Dheeraj wants to opt for computation of profits and gains of business on presumptive basis u/s 44AD for PY 2022-23. Guide Mr. Dheeraj relating to the provisions of advance tax with its due date along with the amount payable, if he opts for the above mentioned presumptive taxation and does not opt for section 115BAC.

■ Mr. Dheeraj is eligible to opt for section 44AD since total turnover of his business in the PY 2022-23 is estimated to be not more than Rs. 2 crore.

*Computation of advance tax payable by Mr. Dheeraj*

Particulars	Rs.
Computation of profits and gains u/s 44AD:	
• 6% of turnover received by account payee cheque of Rs. 15 lakh	90,000
• 8% of turnover received in cash of Rs. 65 lakh	5,20,000
Total income	6,10,000
Tax on total income	34,500
Add: HEC @ 4%	1,380
Advance tax payable	35,880

Advance tax is payable since the amount is not < 10,000. Since Mr. Dheeraj is estimating to declare profits and gains u/s 44AD, he will need to pay whole of the advance tax by 15.3.2023. *Mistake by students – Lack of understanding of provisions of section 44AD and related provisions for payment of advance tax and applicable due date.*

**B170. ADVANCE TAX - CA2014(MAY)** – Who is liable to pay advance tax? What is the procedure to compute the advance tax payable? – Refer para 226, 229 of Concepts Book

**B171. 234B – CA2016(MAY)** – Briefly discuss the provisions of section 234B for short payment or non payment of advance tax. – Refer para 230 of Concepts Book

**B172. 234B - CA2017(MAY)** – Mr. Sachal, a resident individual aged 54, furnishes income details as under:

- Wholesale cloth business, whose turnover is Rs. 150 lakh, for which accounts are audited u/s 44AB. Income from such business is Rs. 8,10,000.
- Income from other sources is Rs. 2,70,000.
- Tax deducted at source is Rs. 25,000.
- Advance tax paid Rs. 1,03,000 on 14.3.2023.

Return of income will be filed on 11.12.2023. The assessee is willing to pay the requisite self-assessment tax. Calculate the interest payable u/s 234B. Assume that the return of income would be processed on the same day of filing of return and Mr. Sachal has not opted for section 115BAC.

■

*Computation of interest u/s 234B*

Particulars	Rs.
Mr. Sachal can opt for section 44AD since turnover from business is not > 2 crore. Assuming entire turnover is received in non-cash modes, income u/s 44AD would be 6% of 1.5 crore, i.e., 9 lakh. It is assumed that he has claimed the lower income of 8.1 lakh instead since he undertakes tax audit u/s 44AB.	8,10,000
Income from other sources	2,70,000
Total income	10,80,000
Tax on total income	1,36,500
Add: HEC @ 4%	5,460
	1,41,960
Less: Tax deducted at source	(25,000)
Assessed tax	1,16,960
Interest u/s 234 is chargeable as advance tax paid of 1,03,000 is < 1,05,264 (90% of assessed tax)	
Simple interest u/s 234B = 1% p.m. × 9 months (1.4.2023 to 11.12.2023 being the date of payment of self-assessment tax as well as determination of total income u/s 143(1); part of a month is taken as full month) × Rs. 13,900 (Rs. 1,16,960 assessed tax – Rs. 1,03,000 advance tax paid = Rs. 13,960. This is rounded off to Rs. 13,900 (any fraction of Rs. 100 is ignored))	1,251

**B173. 234C** – Jacob has estimated his total income for PY 2022-23 to be Rs. 80,000 as of 1 April 2022. He wins a lottery prize of Rs. 5,00,000 on 1.12.2022. He does not pay advance tax. Determine his liability regarding advance tax and interest u/s 234B and 234C.

■

*Computation of liability for advance tax and interest*

Particulars	Rs.
Tax on total income:	
• Tax @ 30% u/ 115BB on winning from lottery of Rs. 5,00,000	1,50,000
• Tax @ regular rates on the balance income of Rs. 80,000	Nil
	1,50,000
Less: Rebate u/s 87A: Nil since total income of Rs. 5.8 lakh is > Rs. 5 lakh	-
	1,50,000
Add: HEC @ 4%	6,000
Total tax liability	1,56,000
Less: TDS deducted on lottery income u/s 194B @ 30%	(1,50,000)
	6,000

Advance tax is not payable since amount is < Rs. 10,000. Consequently, interest is not chargeable u/s 234B and 234C.

**B174. 234B, 234C** – Total income of Muskan, a resident aged 50 years, for PY 2022-23 is Rs. 9,00,000. Tax deducted amounts to Rs. 5,000. She paid advance tax as under: Rs. 10,950 on 15.6.2022, Rs. 55,050 on 10.12.2022, Rs. 20,000 on 10.3.2023.

She is going to file her return of income on 25.9.2023. What is the total amount of tax which she will need to pay as self-assessment along with interest at the time of filing the return? Assume that she has not opted for section 115BAC.

■

*Computation of tax*

Particulars	Rs.
Tax on total income of Rs. 9,00,000	92,500
Add: HEC @ 4%	3,700
	96,200
Less: Tax deducted at source	(5,000)
	<b>91,200</b>

*Computation of interest u/s 234B for default in payment of advance tax*

Advance tax paid of Rs. 86,000 is not less than 90% of assessed tax of Rs. 91,200. Hence, interest u/s 234B is not payable.

## Computation of interest u/s 234C for deferment of advance tax

Due date of advance tax	Shortfall in payment of advance tax	Simple interest payable u/s 234C	Rs.
On or before 15 June	15% of tax due on returned income – Advance tax paid up to 15 June = 15% of 91,200 – 10,950 = 2,730. Rounded off to 2,700 (fraction of Rs. 100 is ignored)	Not payable since advance tax paid up to 15 June of 10,950 is not < 12% of 91,200	-
On or before 15 September	45% of tax due on returned income – Advance tax paid up to 15 September = 45% of 91,200 – 10,950 = 30,090. Rounded off 30,000.	Payable since advance tax paid up to 15 September of 10,950 is < 36% of 96,200. Interest = 1% p.m. × 3 months × 30,000	900
On or before 15 December	75% of tax due on returned income – Advance tax paid up to 15 December = 75% of 91,200 – 66,000 = 2,400.	1% p.m. × 3 months × 2,400	72
On or before 15 March	100% of tax due on returned income – Advance tax paid up to 15 March = 100% of 91,200 – 86,000 = 5,200	1% × 5,200	52
			<b>1,024</b>

Total tax and interest to be paid before filing of return of income = 91,200 tax + 1,024 interest u/s 234C = 92,224.

**B175. 234B, 234C - CA2019(NOV)** – Mr. Mani, a resident individual, sold a plot of land on 20.3.2023. Long term capital gain on such sale amounted to Rs. 5,00,000. Since he had no other income during the PY 2022-23, he did not pay any advance tax instalment. You are required to calculate the amount of advance tax payable by Mr. Mani, if any, assuming he does not opt for section 115BAC. Base your answer on the relevant provisions relating to payment of advance tax on income from capital gain and advise Mr. Mani suitably so that the liability on late payment does not arise.

## Computation of advance tax payable by Mr. Mani

Particulars	Rs.
Unexhausted basic exemption limit (UBEL) = 2,50,000 assuming Mr. Mani is less than 60 years of age	
Taxable LTCG u/s 112 = 5,00,000 LTCG – 2,50,000 UBEL = 2,50,000	
Tax on LTCG u/s 112 @ 20% of 2,50,000	50,000
Add: HEC @ 4%	2,000
Advance tax is payable since it is not < 10,000	<b>52,000</b>

Since long term capital gain arises after the due date of the last instalment of advance tax of 15.3.2023, Mr. Mani will need to pay the whole of advance tax of 52,000 by 31.3.2023. Since advance tax so paid would not be less than 90% of assessed tax, interest u/s 234B will not be chargeable. Also, interest u/s 234C will not be chargeable since the shortfall in payment of tax is on account of failure to estimate the amount of capital gains and whole of tax thereon is paid by 31 March of the FY. *Mistake by students – Could not compute advance tax payable correctly. Could not explain the manner for payment of advance tax so that liability for payment does not arise.*

**B176. Advance tax, 234C – CA2013(MAY), CA2015(NOV)** – Briefly discuss the provisions relating to payment of advance tax in case of capital gains and casual income. – Refer para 231 of Concepts Book.

**B177. Advance tax, 234C – CA2016(NOV), CA2021(DEC)** – Discuss the provision under Income Tax Act for payment of advance tax in case of capital gain. – Refer para 231 of Concepts Book.

# MCQ

## TAX DEDUCTION AT SOURCE (TDS)

### GENERAL PRINCIPLES

**M1.** Who is responsible to deduct or collect tax at source and pay it to the credit of the Central Government?

- (a) Payee, buyer (b) Payee, seller  
(c) Payer, seller (d) Payer, buyer

**M2.** Ronit, age 41 years, is having total income of Rs. 10 lakh for the PY 2022-23 which includes Rs. 1 lakh fees for professional services on which tax has been deducted at source of Rs. 10,000. Ronit has not opted for section 115BAC. Net tax payable by Ronit for AY 2023-24 would be:

- (a) 1,17,000 (b) 1,07,000  
(c) 1,02,500 (d) 1,10,000

### SALARY PAYMENTS

**M3.** Which of the following adjustments is permitted while computing the amount of TDS deductible on salary?

- (a) Relief u/s 89(1) in case of arrears of salary received by employee of a sole proprietor (b) Loss under the head PGBP  
(c) Loss under the head IHP without any limit (d) TDS already deducted by other employers during the FY of which details are furnished by the employee

**M4.** Shubham, aged 55 years, is employed with Sunshine Ltd. since 1 March 2022 on a monthly salary of Rs. 1 lakh per month. What is the amount of TDS that his employer will deduct every month during FY 2022-23 on the basis that Shubham has not intimated his employer about his intention to opt for section 115BAC and has furnished evidence regarding investment in PPF of Rs. 1,50,000?

- (a) 13,500 (b) 14,950  
(c) 9,750 (d) 11,050

**M5.** Raghav, aged 37 years, is employed with Bright Ltd on a monthly salary of Rs. 60,000 per month. He has furnished particulars to his employer regarding loss from a let out house property of Rs. 3,00,000, short term capital loss of Rs. 30,000 and details regarding other income of Rs. 1,00,000. He does not want to opt for section 115BAC. Compute the amount of TDS per month that Bright Ltd. will deduct during FY 2022-23.

- (a) 1,777 (b) Nil  
(c) 2,666 (d) 2,297

**M6.** On which of the following amounts will TDS not be required to be deducted for the PY 2022-23?

- (a) Accumulated balance of recognized provident fund after rendering service for 3 years; service terminated due to discontinuance of the business of employer (b) Advance of salary for PY 2023-24  
(c) Arrears of salary for PY 2020-21, not taxed earlier (d) Perquisite value of ESOP offered by an employer which is not a start up

**M6a.** Krish, a resident of age 45 years, is employed with Z Ltd. on a monthly salary of Rs. 4,50,000 p.m. This includes non-monetary perquisites of Rs. 50,000 p.m. provided by Z Ltd. Tax on such non-monetary perquisites is borne by Z Ltd. Determine the amount of TDS that would be deducted from the salary during the FY 2022-23. Krish has intimated Z Ltd. of his intention to opt u/s 115BAC. He has deposited Rs. 1,50,000 in his PPF account.

- (a) 1,72,553 (b) 15,52,980  
(c) 14,84,340 (d) 13,80,427

**M7.** Rohit resigned from BCD Pvt. Ltd. after 3 years of service and received taxable amount from his EPF Account of Rs. 5 lakh on 1.2.2023. Prior to joining BCD Pvt. Ltd., Rohit was in employment with DEF Pvt. Ltd. for 4 years and he had transferred his EPF balance from DEF Pvt. Ltd. to BCD Pvt. Ltd. Will TDS be deducted on this amount?

- (a) Yes, on Rs. 5 lakh @ 10% (b) Yes, on Rs. 4.5 lakh @ 10%  
(c) Yes, on balance attributable to service in BCD Pvt. Ltd., @ 10% (d) No

### INTEREST, DIVIDEND & INVESTMENT INCOME

**M8.** During the FY 2022-23, Mr. T, a resident, received interest on Government of India bonds of Rs. 20,000 on 1.10.2022, interest on 7.75% Savings (Taxable) Bonds, 2018 of Rs. 10,000 on 1.11.2022, interest on debentures of BCD Ltd (a listed company) of Rs. 7,500 paid by account payee cheque on 1.12.2022, interest on listed bonds of ABC Ltd, issued in demat form, of Rs. 20,000 on 1.1.2023 and interest on debentures of CDF Pvt. Ltd. of Rs. 3,000 paid by NEFT on 1.2.2023. Compute the amount of TDS to be deducted.

- (a) 750 (b) 300  
(c) 1,050 (d) 2,550

**M9.** Mr. Y, a resident, received interest on debentures from three companies (not closely held) of Rs. 4,000 each on 15.3.2023 by account payee cheque. Compute the TDS to be deducted.

- (a) 1,200 (b) Nil  
(c) 900 (d) 525

**M10.** During the FY 2022-23, Mr. C, a resident of age 60 years, received interest on fixed deposits from SBI, PNB and HDFC Banks of Rs. 35,000, Rs. 45,000 and Rs. 55,000, respectively. He also received interest on recurring deposit from three branches of Seema Gramin Bank of Rs. 25,000 each (bank has not adopted core banking solutions). In addition, he received interest from corporate

deposits made in two private limited companies of Rs. 4,000 and Rs. 8,000, respectively. Compute the amount on which TDS will be deducted.

- (a) 63,000 (b) 1,38,000  
(c) 67,000 (d) 1,08,000

**M11.** Rakesh, a resident of age 50 years, carrying on business having turnover of Rs. 2 crore for FY 2021-22 and Rs. 90 lakh for FY 2022-23, paid interest of Rs. 20,000 to Shah & Co, a partnership firm in respect of loan taken from the firm for use in his business. He also paid interest of Rs. 50,000 to Dena Bank in respect of loan taken to purchase raw material. He did not deduct TDS on any of these payments. How much amount will be allowed as deduction in computing his business income? Assume that section 43B is complied with, as applicable.

- (a) 70,000 (b) Nil  
(c) 49,000 (d) 64,000

**M12.** Rashmi, a resident and a partner in R&R partnership firm, received interest from the firm of Rs. 40,000 on 12.9.2022. She also received Rs. 10,000 as interest on income tax refund on 12.12.2022 and Rs. 15,000 as interest on savings bank account in Punjab Bank on 31.3.2023. She had given a loan to her friend on which she received interest of Rs. 20,000 on 1.3.2023. Her friend was a professional having gross receipts of Rs. 40 lakh for FY 2021-22 and Rs. 60 lakh for FY 2022-23. Compute the TDS deductible on these amounts.

- (a) Nil (b) 1,500  
(c) 4,500 (d) 2,625

**M13.** Mahesh, a resident, received bonus shares from CD Pvt. Ltd. (in which he was a preference shareholder) on 12.11.2022 having market value of Rs. 75,000 (accumulated profits of the company as on this date were Rs. 2,00,000). He also held 15% equity shares in this company which gave him a loan of Rs. 37,500 on 1.1.2023. He repaid the loan on 31.3.2023. He also received dividend of Rs. 3,000 from ZZ Ltd. on 12.12.2022 and of Rs. 6,000 from QQ Ltd. on 15.4.2022 and these amounts were credited directly in his bank account. All companies are Indian companies. He furnished his PAN number to all the companies, except QQ Ltd. Compute the amount of TDS deductible from these sums.

- (a) 1,200 (b) 4,950  
(c) 11,700 (d) 12,450

**M14.** Reliable Pvt. Ltd. paid dividend to its shareholders on 15.8.2022 through account payee cheques. Five shareholders received Rs. 4,000 each, three shareholders received Rs. 7,500 each and two shareholders received Rs. 10,000 each. All shareholders were residents. Two shareholders receiving Rs. 10,000 had not furnished their PAN number to the company. Compute the amount of tax that the company will need to deduct at source?

- (a) 5,250 (b) 7,750  
(c) 6,250 (d) 8,750

**M14a.** KK Ltd., an Indian company, declared annual dividend on 1.9.2022. Mr. Z, a resident, received dividend of Rs. 4,600 in cash. Which of the following tax implications will arise?

- (a) Dividend is taxable in the hands of Mr. Z and he will receive Rs. 4,600 (b) Dividend is taxable in the hands of Mr. Z and he will receive Rs. 4,370, net of TDS  
(c) Dividend is taxable in the hands of Mr. Z and he will receive Rs. 4,140, net of TDS (d) Dividend is exempt in the hands of Mr. Z and he will receive Rs. 4,600

**M15.** Bharat, a resident, received income from HDFC Mutual Fund of Rs. 2,250 each on 1.6.2022, 1.9.2022 and 1.3.2023 and income from JM Mutual Fund of Rs. 2,000 each on 1.11.2022 and 1.2.2023. Further, he sold 2,000 units of Bharat Mutual Fund on 11.11.2022 for Rs. 50,000 on which he computed short term capital gain of Rs. 20,000. Compute the amount of TDS that would be deducted from these incomes.

- (a) 675 (b) Nil  
(c) 975 (d) 2,175

**M16.** Mrs. Sharma, a resident, received Rs. 10 lakh on 20.11.2022 upon the death of her spouse. The policy was taken on 15.4.2020 for sum assured of Rs. 10 lakh with an annual premium of Rs. 1,10,000. She had also taken another policy on her life for a sum assured of Rs. 15 lakh with an annual premium of Rs. 2,25,000. The policy was issued to her on 15.4.2017. The policy matured on 15.4.2022 and she received Rs. 20 lakh. Compute the amount of TDS that will be deducted on the amounts received by her.

- (a) 32,813 (b) 1,00,000  
(c) 77,250 (d) 43,750

**M17.** Mr. Jain, a resident, was issued a life insurance policy by Safe Insurance Company on 20.6.2017 for a sum assured of Rs. 5 lakh at an annual premium of Rs. 1 lakh. Upon maturity of the policy on 20.6.2022, he received a sum of Rs. 5,37,500. He also got a life insurance policy from Suraksha Insurance Company on 12.2.2012 for a sum assured of Rs. 10 lakh at an annual premium of Rs. 1 lakh. He received Rs. 12 lakh from this policy on 12.2.2023. Compute the amount of TDS deductible on such sum.

- |            |           |
|------------|-----------|
| (a) 20,625 | (b) 1,875 |
| (c) 40,625 | (d) 9,375 |

#### CASUAL INCOME

**M18.** During the PY 2022-23, Mr. Gamble earned the following incomes: Lottery prize of Rs. 30,000 (Rs. 7,500 received on 16.9.2022 and the balance on 5.10.2022) from HP State Lottery; winning in a card game of Rs. 5,000 on 15.8.2022 from a local casino; Jackpot prize of a car worth Rs. 5 lakh along with cash prize of Rs. 2.5 lakh in a TV game show on 15.12.2022; first prize in horse race of Rs. 50,000 from the Delhi Horse Club on 15.2.2023. He did not furnish his PAN number to the Delhi Horse Club. What is the total cash amount that he would receive after TDS, if any?

- |            |              |
|------------|--------------|
| (a) 89,500 | (b) 5,86,000 |
| (c) 86,000 | (d) 83,750   |

#### COMMISSION

**M19.** Rajesh, a resident, is an insurance agent of JKL General Insurance company and PQM Life Insurance company. During the PY 2022-23, he received commission of Rs. 10,000 for issuance of new policies and Rs. 22,500 for renewal of existing policies, from these companies, respectively, during January 2023. Calculate the amount of TDS deductible.

- |           |           |
|-----------|-----------|
| (a) 1,125 | (b) 1,500 |
| (c) 3,000 | (d) 4,000 |

**M20.** Ramesh, a resident, has been appointed the stockist of Assam State Lottery. He is also the distributor of Goa State Lottery. During the PY 2022-23, he was paid commission of Rs. 1,20,000 by Assam State Lottery in October 2022 and commission of Rs. 10,000 by Goa State Lottery in January 2023. Calculate the amount of TDS deductible.

- |           |           |
|-----------|-----------|
| (a) 4,125 | (b) 3,750 |
| (c) 6,000 | (d) 5,500 |

**M21.** Sukesh, a resident, is a commission agent for Green Wind Pvt. Ltd. During the PY 2022-23, he received commission of Rs. 10,000, Rs. 25,000 and Rs. 40,000 during July, September and October 2022, respectively. He also runs a mobile shop for which he purchased mobile phones worth Rs. 5 lakh at a discount of 30%, i.e., Rs. 1,50,000, from a distributor. Calculate the amount of TDS deductible.

- |           |           |
|-----------|-----------|
| (a) 9,375 | (b) 3,375 |
| (c) 9,000 | (d) 3,750 |

**M22.** Mukesh, a resident and a travel agent, received commission of Rs. 15,000, Rs. 20,000 and Rs. 17,500 from three tour operator companies during March 2023. He did not furnish his PAN number to the first tour operator. All the companies had business turnover of less than Rs. 1 crore during FY 2021-22. Calculate the amount of TDS deductible.

- |           |           |
|-----------|-----------|
| (a) 4,875 | (b) 1,875 |
| (c) 5,345 | (d) 2,438 |

#### WORK & SERVICES

**M23.** BKG & Co, a partnership firm, paid Rs. 25,000 on five occasions to Mr. Suresh, a resident, for providing catering services during various business conferences and events for the period October to December 2022. The amount of TDS will be:

- |           |           |
|-----------|-----------|
| (a) 250   | (b) Nil   |
| (c) 2,500 | (d) 1,250 |

**M24.** Mr. Raja, carries on a business having turnover of Rs. 3 crore for FY 2021-22. During the FY 2022-23, he made the following payments: Rs. 37,500 to Shine Pvt. Ltd., an advertising agency, for running an advertisement campaign for his newly launched product under an advertisement contract; Rs. 60,000 to Indian Railways for transportation of goods; Rs. 2,50,000 to Food & Co caterers for arranging catering during his marriage anniversary celebrations; Rs. 1,00,000 to Dinesh Pvt. Ltd. for supplying anniversary invitation cards as per his specifications (he supplied the material for this purpose); Rs. 1,80,000 to Mr. Rohit for manufacturing furniture for his office (material was supplied by King Pvt. Ltd. in which Mr. Raja held 15% equity shares). All the payments were made during the period June to December 2022 and all payees are residents. Compute the amount of TDS deductible by Mr. Raja.

- |           |           |
|-----------|-----------|
| (a) 3,750 | (b) 2,550 |
| (c) 750   | (d) 2,250 |

**M25.** Raman HUF made payment of Rs. 90,000 to Shah & Co, partnership firm resident in India and a goods carriage transporter owning 7 goods carriages, for transport of goods from factory to godown. Payment of Rs. 45,000 each was made on two occasions during the period September to October 2022. Shah & Co did not furnish any declaration to Raman HUF. Raman HUF clocked turnover of Rs. 1.15 crore during FY 2021-22. Compute the amount of TDS deductible by Raman HUF.

- (a) Nil (b) 1,800  
(c) 900 (d) 2,400

**M26.** Ramandeep Publishers Pvt. Ltd. made payment of Rs. 90,000 on 15.4.2022 to Mr. Rohit, a resident, carrying on business of offset printing, for printing of books as per its specifications and using material supplied by it. Mr. Rohit raised the invoice separately showing the value of material of Rs. 60,000. Compute the amount of TDS deductible.

- (a) 300 (b) 600  
(c) 900 (d) 1,800

**M27.** Jacob, a resident, received the following during the period June 2022 to March 2023: Rs. 37,500 for developing a website for Mantle Pvt. Ltd.; Rs. 52,500 as fees for technical services (not being professional services) from Roman HUF carrying on business having turnover of Rs. 2 crore for FY 2021-22; Rs. 15,000 as directors' remuneration from Axis Pvt. Ltd. (TDS is not deductible u/s 192); Rs. 75,000 as royalty from Shine & Co, partnership firm, in respect of patent developed by him; Rs. 1,50,000 as non compete fee from Bright Ltd. for not carrying out profession in a specialized line of technology. Compute the amount of TDS deducted on these amounts.

- (a) 33,000 (b) 28,800  
(c) 25,400 (d) 27,300

**M28.** Jolly, a Chartered Accountant, having gross receipts in profession of Rs. 65 lakh for FY 2021-22 and Rs. 45 lakh for FY 2022-23 made the following payments during the month of February 2023: Rs. 25,000 and Rs. 20,000, paid on two occasions, to his lawyer for defending a case in the Delhi High Court relating to a professional dispute; Rs. 1,20,000 as royalty to Sharp Pvt. Ltd. for using a financial model developed by the company; Rs. 1,00,000 to Ramola, an interior decorator, for furnishing the interiors of his residence; Rs. 60,000 for acquisition of financial software from Webtel Pvt. Ltd, an Indian company (he has obtained declaration from the company that it deducted TDS u/s 194J when it acquired the software and it did not modify it further). All payees are residents and no other payment was made to them during FY 2022-23. Compute the amount of TDS that Jolly will need to deduct.

- (a) Nil (b) 13,500  
(c) 9,000 (d) 4,500

**M29.** Johnny is a financial consultant, having gross receipts from profession of Rs. 45 lakh for FY 2021-22 and Rs. 55 lakh for FY 2022-23. He made the following payments during the FY 2022-23 to persons being residents in India: Rs. 60 lakh to a building contractor for reconstruction of his residential house; commission of Rs. 1 lakh to FinEx, an agency, for procuring customers; Rs. 30 lakh to a lawyer for defending criminal proceedings against him in the Supreme Court (not connected to his profession). Compute the amount of TDS that he needs to deduct.

- (a) 3,65,000 (b) Nil  
(c) 3,00,000 (d) 4,55,000

**M30.** Mr. Bonny, having business turnover of Rs. 5 crore for FY 2021-22 and Rs. 4 crore for FY 2022-23, made payment to Décor Pvt. Ltd., an Indian company providing services as interior decorators, of Rs. 60 lakh in five equal instalments during the FY 2022-23 for renovating the interiors of his residence. Compute the amount of TDS that he needs to deduct.

- (a) Nil (b) 3,00,000  
(c) 1,20,000 (d) 6,00,000

**M31.** Ruhi, a professional having gross receipts of Rs. 40 lakh for FY 2020-21 and Rs. 60 lakh for FY 2021-22 made the following payments during the FY 2022-23. Commission of Rs. 15,000 on 12.2.2023, charges of Rs. 5,00,000 on 15.3.2023 to a gift shop for supplying gift items based on her specifications (she did not supply the raw material) and charges of Rs. 50,000 on 12.12.2022 to a doctor for performing surgery on her child. All payees are residents. Determine the amount of TDS that Ruhi would need to deduct on such payments.

- (a) 10,750 (b) 28,250  
(c) Nil (d) 42,500

**M31a.** Jacky is an architect by profession who has been declaring his business profits u/s 44ADA since the last 5 years. During the FY 2022-23, he paid brokerage of Rs. 20 lakh to Rohit, a real estate agent, in connection with purchase of a residential house. He also paid Rs. 50 lakh to Jagat, a contractor, for reconstruction of the house. Rohit and Jagat are residents. Determine the amount of TDS that Jackey would need to deduct on such payments.

- (a) 3,50,000 (b) 2,50,000  
(c) Nil (d) 1,50,000

#### HIRE OR TRANSFER OF PROPERTY

**M32.** Keshav, engaged in manufacturing business and having turnover of Rs. 2 crore for FY 2021-22, made the following payments during the PY 2022-23: Charges for hire of plant and machinery of Rs. 2 lakh and Rs. 2.5 lakh paid to Bull Pvt. Ltd. and Bear Pvt. Ltd., respectively; rent for office of Rs. 3 lakh (includes refundable deposit of Rs. 1 lakh) paid to Trade Smart Ltd.; rent of factory building



of Rs. 3.75 lakh paid to Leaseman Ltd (the company had sub-let the building to Keshav). All payees are residents. Compute the amount of TDS deductible from these sums.

- (a) 45,000 (b) 64,500  
(c) 42,500 (d) 4,500

**M33.** B&C partnership firm, having turnover of Rs. 40 lakh from business for FY 2021-22, paid office rent of Rs. 4 lakh to Mr. Sharma HUF, a resident. Rent included Rs. 50,000 as arrears of rent pertaining to FY 2021-22 and advance rent of Rs. 30,000 pertaining to FY 2023-24. It also included Rs. 1 lakh of non-refundable deposit. TDS is deductible from arrears of rent. Compute the amount on which TDS will be deductible.

- (a) 3,00,000 (b) 4,00,000  
(c) 3,20,000 (d) Nil

**M34.** Jagson Pvt. Ltd. hired machinery during January and February 2023 @ Rs. 50,000 per month and a warehouse for January to March 2023 @ Rs. 50,000 per month, from BKC Ltd., an Indian company. Compute the amount that it needs to deduct at TDS.

- (a) 17,000 (b) 5,000  
(c) Nil (d) 25,000

**M35.** Mr. Q is a professional. He has paid Rs. 2,50,000 as rent for use of building to Mr. J, a resident, for the month of April 2022. Gross receipts of Mr. Q are Rs. 55 lakh from 1.4.2021 to 31.3.2022 and Rs. 45 lakh from 1.4.2022 to 31.3.2023. Is Mr. Q responsible for deducting TDS?

- (a) U/s 194-I @ 10% (b) U/s 194-IB @ 5%  
(c) U/s 194-I @ 2% (d) No TDS

**M36.** Krishna, a salaried employee, visited Chennai on deputation for the period July 2022 to March 2023 where he stayed in a house on rent of Rs. 60,000 per month. However, he did not furnish his PAN to the landlord, a resident. What is the total amount he will pay to the landlord, net of TDS, during the PY 2022-23?

- (a) 4,32,000 (b) 5,19,750  
(c) 4,80,000 (d) 4,54,000

**M37.** Shirish, a freelance professional, having gross receipts of Rs. 30 lakh in FY 2021-22, stays in a house, owned by Harsh, a resident, on rent of Rs. 51,000 per month from April to December 2022. He vacates the house on 31.12.2022. He also pays rent of Rs. 10,000 per month to Harsh for the entire year on account of hire of high-end computers. How much TDS will he need to deduct?

- (a) 45,900 (b) 22,950  
(c) Nil (d) 28,950

**M38.** Mr. Shera, a resident, had purchased a house on 10.1.2022 for Rs. 40 lakh which he sold to Mr. Bera, a resident, for Rs. 49 lakh on 10.9.2022 (SDV on this date was Rs. 54 lakh). In addition, he charged Rs. 6 lakh towards club membership and car parking. He also transferred an urban agricultural land, situated within the municipal limits of Ghaziabad, for Rs. 45 lakh (SDV was Rs. 49 lakh) on 15.11.2022 to Mr. Shah, a resident, which he had purchased for Rs. 35 lakh on 10.1.2021. Compute the amount of TDS that will be deducted on these transactions.

- (a) 55,000 (b) Nil  
(c) 1,00,000 (d) 70,000

**M39.** Raghu, a resident of age 20 years, purchased a flat in a housing society on 15.10.2022 from Bhrigu, a resident, for a consideration of Rs. 60 lakh (SDV Rs. 70 lakh). How much tax will Raghu need to pay to the Government, for himself as well as on behalf of Bhrigu, on account of TDS if Raghu has no source of income for the PY 2022-23 and he has not opted for section 115BAC?

- (a) 60,000 (b) 1,77,000  
(c) Nil (d) 1,87,000

**M40.** The Maharashtra State Government compulsorily acquired a plot of urban agricultural land and a building belonging to Mr. Jain, a resident, and paid compensation in respect of land of Rs. 15 lakh and in respect of building of Rs. 11.25 lakh in five instalments of Rs. 5.25 lakh each during the period January to March 2023. Compute the amount of TDS that will be deducted.

- (a) 2,62,500 (b) 3,00,000  
(c) 1,12,500 (d) Nil

#### TRADE & COMMERCE

**M41.** Mr. Sohan, a resident doctor, starts providing consultation services to his patients through a medical consultation online platform hosted by Med Net Pvt. Ltd. He earns a gross amount of Rs. 3 lakh using the online platform during PY 2022-23. In addition, he earns consultation fees of Rs. 5 lakh through his own clinic located in Chennai where he charges Rs. 1,000 per consultation. He has not furnished his PAN or Aadhaar number to Med Net Pvt. Ltd. Compute the amount of TDS that will be deducted.

- (a) Nil (b) 3,000  
(c) 15,000 (d) 40,000

**M42.** Mr. Rajkumar, a businessman and a resident, sells stationery items on Amazon and Flipkart. During the PY 2022-23, he has sold items worth Rs. 5 lakh and Rs. 7.5 lakh, respectively, from these two platforms. He has furnished his PAN to both the platforms. Compute the amount of TDS that will be deducted.

- (a) 11,250 (b) 75,000  
(c) Nil (d) 7,500

**M43.** During the FY 2022-23, QR Ltd., an Indian company, having turnover from business of Rs. 8 crore for FY 2021-22 and Rs. 10.2 crore for FY 2022-23, sold computers for Rs. 80 lakh to Mr. C, a dealer in computers having turnover from business of Rs. 12 crore for FY 2021-22 and Rs. 9 crore for FY 2022-23. The computers were sold in two lots of Rs. 30 lakh on 1.5.2022 and Rs. 50 lakh on 1.9.2022 and payment was made immediately. Compute the amount of TDS that will need to be deducted by Mr. C.

- (a) Nil (b) 3,000  
(c) 8,000 (d) 5,000

**M43a.** PQR Ltd. sponsored a trip to Hong Kong for Mr. C, a resident, and his family upon achieving the annual sales target of the company. Mr. C is the distributor of PQR Ltd. Turnover in business for Mr. C was Rs. 75 crore for FY 2021-22 and Rs. 95 crore for FY 2022-23. The trip was undertaken in the month of October 2022 and it cost Rs. 10 lakh to the company. Compute the amount of TDS that needs to be deducted or paid in this respect, if any.

- (a) Nil (b) 1,00,000  
(c) 2,00,000 (d) 50,000

**M43b.** MP Ltd. sold goods priced at Rs. 10 lakh to Mr. X, its dealer in Punjab, at a rebate of 30%. As an incentive, it provided a TV set of value Rs. 50,000 to Mr. Y, its dealer in Delhi. It organized a dealer conference in Mumbai for addressing various queries and issues of its dealers for which it incurred expenditure of Rs. 30,000 per dealer. However, it incurred additional expenditure of Rs. 15,000 on Mr. Z, its dealer in Bangalore, on providing him with a leisure trip around Mumbai for which Mr. Z overstayed for 3 days after the conference. MP Ltd. launched a new product which it gave to Ms. A, a famous YouTuber, for releasing a review video on YouTube. It allowed Ms. A to retain the product. Ms. A did not furnish her PAN to MP Ltd. MP Ltd. offered this product to its customers for Rs. 25,000. Determine the amount of TDS that needs to be deducted or paid in respect of these transactions.

- (a) Nil (b) 5,000  
(c) 7,000 (d) 10,000

#### SPECIAL CASES

**M44.** Bill Jones, a French citizen, a tennis player and a non-resident in India, came to India during the PY 2022-23 during which he was paid Rs. 2 lakh each for participation in three matches of Indian tennis league, Rs. 1 lakh for endorsing a product in a TV advertisement and Rs. 10,000 for contributing an article on tennis in a leading Indian newspaper. He also won Rs. 7,500 in a card game. He incurred expenditure of Rs. 75,000 in earning these incomes. Compute the amount of TDS that will be deducted.

- (a) 1,50,020 (b) 1,47,680  
(c) 1,27,000 (d) 1,42,000

**M45.** Mr. Mohan, a transporter, withdrew the following amounts in cash from his accounts during the PY 2022-23: Rs. 20 lakh from savings account in Delhi branch of HDFC Bank on 1.9.2022; Rs. 50 lakh from current account in Mumbai branch of HDFC Bank on 1.10.2022; Rs. 70 lakh from current account in Delhi branch of ICICI Bank on 1.11.2022; Rs. 40 lakh from saving account in Mumbai branch of ICICI Bank on 1.12.2022 and Rs. 60 lakh from Post Office Saving Account maintained in Bangalore. He has been duly filing his return since the last ten years. Compute the amount of TDS that will be deducted.

- (a) Nil (b) 2,20,000  
(c) 20,000 (d) 4,20,000

**M46.** During the PY 2022-23, Mr. Krishna withdrew Rs. 1.5 crore in cash in the aggregate from five accounts maintained with Bihar Co-operative Bank, during the month of March 2023. He also withdrew Rs. 30 lakh in cash from the Saving Bank Account maintained in the Post Office during February 2023 and Rs. 10 lakh in cash from current account maintained with Bank of India during December 2022. He has not filed his return for the last five years. Determine the amount of TDS that will be deducted.

- (a) 8,10,000 (b) 6,00,000  
(c) 3,60,000 (d) 4,00,000

**M46a.** Mr. Rohan, 80 years of age and a resident, has earned pension of Rs. 25,000 p.m. during the PY 2022-23 which is credited to PNQ Bank (notified u/s 194P). Interest on savings account (in which pension is credited) is Rs. 20,000. He has fixed deposits in PNQ Bank from which he has earned interest of Rs. 5,00,000 during the year. He has furnished prescribed declaration u/s 194P to PNQ

Bank and has deposited Rs. 1,00,000 in his PPF account. He has not opted for section 115BAC. Compute the amount of TDS that will be deducted on behalf of Mr. Rohan for FY 2022-23.

- (a) Nil u/s 192; 50,000 u/s 194A  
(b) Nil  
(c) 35,360 u/s 194P  
(d) 24,960 u/s 194P

#### GENERAL POINTS & PROCEDURE

**M46b.** The rate of TDS is the regular rate specified under the relevant provision, if:

- (a) Payee furnishes an invalid PAN to the payer  
(b) Payee furnishes PAN of another person to the payer  
(c) Payee does not furnish his PAN to the payer  
(d) Payee furnishes his PAN to the payer

**M47.** Which of the following is not correct in case the payee does not furnish his PAN to the payer?

- (a) TDS u/s 194B is @ 30%  
(b) TDS u/s 192A is not @ 20%  
(c) TDS u/s 194J is @ 20% + SC + HEC  
(d) TDS u/s 194-O is @ 5%

**M48.** BCD Ltd. credits commission to the account of Sohan on 20.3.2023 of Rs. 50,000. The amount is paid on 10.4.2023. What is the amount of TDS deductible during the FY 2022-23?

- (a) Nil  
(b) 2,500  
(c) 1,875  
(d) 10,000

**M49.** Vivek & Co, a Chartered Accountant firm, raised invoice of Rs. 1,18,000 (showing Rs. 1,00,000 plus 18% IGST), towards fee for professional services rendered to JKG Pvt. Ltd. What is the amount of TDS that will be deducted by JKG Pvt. Ltd.?

- (a) 11,800  
(b) 1,800  
(c) 10,000  
(d) Nil

**M50.** Payment made to which of the following, otherwise liable to TDS under the relevant provision, will not be liable to TDS?

- (a) Government  
(b) RBI  
(c) Mutual Fund  
(d) All the above

**M51.** Mr. Sharma, sole proprietor of a furniture workshop and a resident aged 62 years, has estimated his total income and tax liability to be nil for the PY 2022-23. He has supplied certain furniture to BCD Pvt. Ltd. for Rs. 50,000 on which tax is deductible at source @ 1% u/s 194C. Which of the following options is available to him to reduce or avoid deduction of TDS?

- (a) Furnish declaration to the payer u/s 197A  
(b) Ask the payer not to deduct TDS  
(c) Make application to the AO u/s 197  
(d) No option; TDS will be deducted at the prescribed rate

**M52.** Suhana, a resident aged 56 years, has estimated her gross total income for PY 2022-23 of Rs. 4,00,000 and deduction available under Chapter VIA of Rs. 1,75,000. Her income will include taxable amount of Rs. 3,00,000 on account of proceeds from a life insurance policy. What can she do to minimize the TDS liability on the insurance proceeds?

- (a) Furnish declaration to the payer u/s 197A  
(b) Ask the payer not to deduct TDS  
(c) Make application to the AO u/s 197  
(d) No option; TDS will be deducted at the prescribed rate

**M53.** Mr. K, a resident of age 70 years, is supposed to receive interest on bank fixed deposits of Rs. 2,00,000 and dividend from Indian companies of Rs. 1,50,000. He estimates his gross total income for the PY 2022-23 to be Rs. 5,50,000. However, after providing deduction under Chapter VIA provisions, he estimates his tax liability to be Nil. What is the best way he can avoid TDS on the aforesaid amounts?

- (a) Furnish declaration to the payer u/s 197A  
(b) Ask the payer not to deduct TDS  
(c) Make application to the AO u/s 197  
(d) No option; TDS will be deducted at the prescribed rate

**M54.** TDS is not deductible u/s 194C and 194H by an individual in respect of payment made for personal purposes of such individual.

- (a) True  
(b) False

**M55.** TDS is deductible under which of the following provisions by an individual or HUF having total sales, gross receipts or turnover of not more than Rs. 1 crore in case of business or not more than Rs. 50 lakh in case of profession, during the preceding FY?

- (a) 194A  
(b) 194J  
(c) 194-IA  
(d) 194-I

**M56.** Which of the following provisions apply to a non-resident payee?

- (a) 194E  
(b) 194N  
(c) 194BB  
(d) All of the above

**M57.** Which of the following sections does not provide for any threshold for TDS deduction?

- (a) 194J – Director's remuneration  
(b) 194N – Cash payment  
(c) 194-IB – Rent  
(d) 194B – Winnings from lottery, etc.

- M58.** Swan Pvt. Ltd. deducted TDS on fees for professional services u/s 194J on 15.7.2022. Which of the following is not correct?  
 (a) It should deposit TDS latest by 7.8.2022 (b) It should furnish statement of TDS latest by 31.10.2022  
 (c) It should issue certificate of TDS latest by 31.8.2022 (d) It should possess TAN and should quote it in the challan, certificate and statement of TDS
- M59.** Mr. Q deducted TDS u/s 194M on contract work charges on 15.3.2023. Which of the following is not correct?  
 (a) He should deposit the TDS latest by 30.4.2023 (b) He should furnish statement of TDS latest by 30.4.2023  
 (c) He should issue certificate of TDS latest by 15.5.2023 (d) He should possess TAN and should quote it in challan, certificate and statement of TDS
- M60.** Mr. C deducted TDS on rent u/s 194-I on 10.3.2023. Which of the following is not correct?  
 (a) He should deposit TDS latest by 30.4.2023 (b) He should furnish statement of TDS latest by 30.4.2023  
 (c) He should issue certificate of TDS latest by 15.6.2023 (d) He should possess TAN and should quote it in challan, certificate and statement of TDS
- M61.** Which of the following is not a consequence of not deducting TDS or depositing TDS, as required?  
 (a) Payer is treated as assessee in default (b) Compound interest is chargeable  
 (c) Related business expenditure is disallowed u/s 40(a) (d) Possible penalty and prosecution
- M62.** Zoyo Pvt. Ltd. deducted TDS of Rs. 20,000 u/s 193 on 15.9.2022 while making payment of interest income which was credited to the account of the payee on 1.9.2022. It deposited the TDS deducted on 7.10.2022. Compute the interest payable u/s 201(1A).  
 (a) Rs. 200 (b) Rs. 17  
 (c) Rs. 100 (d) Nil
- M63.** Mr. Z deducted TDS of Rs. 3 lakh u/s 194M on 1.3.2023 in respect of payment of fees for professional services paid on 15.3.2023 which was credited to the account of the payee on 1.3.2023. It deposited the TDS deducted on 15.5.2023. Compute the interest payable u/s 201(1A).  
 (a) 4,500 (b) 9,000  
 (c) 13,500 (d) 1,125

#### COLLECTION OF TAX AT SOURCE (TCS)

- M64.** Mr. B is a timber dealer. In which of the following cases will he be required to collect tax at source on sale of timber?  
 (a) His turnover from business does not exceed Rs. 1 crore (b) Buyer purchases timber in retail sale for making furniture for the preceding FY  
 (c) Sale is to the Government of Karnataka (d) Buyer purchases timber for further trading
- M65.** Mr. C is a distributor of alcoholic liquor for human consumption produced by JJ Liquor Ltd. Turnover from his business during the PY 2021-22 was Rs. 3 crore. During the PY 2022-23, he sold liquor to M/s High & Co, a liquor shop for Rs. 10 lakh. M/s High & Co did not furnish its PAN to Mr. C. Calculate the amount of TCS that Mr. C would collect from the buyer.  
 (a) 37,500 (b) 10,000  
 (c) 50,000 (d) Nil
- M66.** A mining lease was awarded to BCD Pvt. Ltd. for the period June 2022 to March 2023 for Rs. 37,500 per month. Compute the amount of TCS that would be collected by the lessor in this respect?  
 (a) Nil (b) 10,000  
 (c) 25,000 (d) 7,500
- M67.** In which of the following cases, will Speed & Co, a partnership firm and a car retail showroom owner, having business turnover of Rs. 75 lakh for the FY 2021-22, be liable to collect TCS from the buyer?  
 (a) Purchase by Mr. J of two cars of Rs. 10 lakh each (b) Purchase by Rajasthan State Government of 5 cars of Rs. 15 lakh each  
 (c) Purchase by BCD Ltd. of 10 cars of Rs. 15 lakh each for its staff (amount payable has been debited by Speed & Co but payment has not yet been received) (d) Purchase by Raghav HUF of two cars of Rs. 12 lakh each
- M68.** Forex & Co, authorized dealers, received Rs. 5 lakh from Mr. Y, each on 1.2.2023 and 1.3.2023, for remittance outside India under the LRS scheme of the RBI for the purpose of medical expenditure. At what rate will Forex & Co collect TCS from Mr. Y?  
 (a) 0.5% on Rs. 10 lakh (b) 5% of Rs. 3 lakh  
 (c) 3.75% of Rs. 3 lakh (d) 10% of Rs. 5 lakh
- M69.** Swan Tours Pvt. Ltd. received Rs. 10 lakh from Mr. P as payment for a package tour program to Europe. At what rate will the company collect TCS from Mr. P?

- (a) 5% of Rs. 10 lakh (b) 3.75% of Rs. 10 lakh  
 (c) 5% of Rs. 3 lakh (d) 10% of Rs. 3 lakh

**M70.** Honda Cars Ltd., having turnover of Rs. 12 crore for FY 2021-22 and Rs. 9 crore for FY 2022-23, sold 10 cars of Rs. 8 lakh each to the Government of Madhya Pradesh during February 2023. What is the amount of TCS that the company will collect?

- (a) Nil (b) 0.075% of Rs. 80 lakh  
 (c) 0.075% of Rs. 30 lakh (d) 0.75% of Rs. 30 lakh

**M71.** Dash Cars Ltd., a car manufacturer, having a turnover of Rs. 15 crore for FY 2021-22, sold 5 cars of Rs. 15 lakh each to a transport company in retail sale on 15.2.2023 and 5 cars of Rs. 12 lakh each to a car distributor on 15.11.2022. Amounts were received within the FY 2022-23. Business turnover of transport company and car distributor is Rs. 15 crore and Rs. 5 crore, respectively, for FY 2021-22. What is the amount of TCS that Dash Cars Ltd. will collect?

- (a) Nil (b) 8,500  
 (c) 76,000 (d) 81,000

### ADVANCE TAX

**M72.** Who of the following is required to pay advance tax?

- (a) BLB LLP having tax of Rs. 8,000 on the estimated total income (b) Mr. Raju, resident aged 60 years, having only income from pension and interest and tax on estimated total income, of Rs. 20,000  
 (c) J&K, partnership firm, having nil tax on estimated total income (d) Mr. Raju, resident aged 65 years, having only income from business and interest and tax on estimated total income, of Rs. 15,000

**M73.** Mr. K, a resident of age 45 years, has estimated his tax liability for PY 2022-23 at Rs. 20,000. How much advance tax will he need to pay by 15.9.2022 if he paid Rs. 2,000 on 15.6.2022 as the first instalment of advance tax?

- (a) 9,000 (b) 6,000  
 (c) 7,000 (d) 15,000

**M74.** Mr. J has estimated his tax liability for PY 2022-23 at Rs. 50,000. How much advance tax will he need to pay for the instalment due on 15.12.2022 if he paid Rs. 10,000 on 15.6.2022 and Rs. 30,000 on 15.9.2022?

- (a) 15,000 (b) 10,000  
 (c) 20,000 (d) Nil

**M75.** Mr. T is a businessman claiming profits and gains from business u/s 44AD. He has estimated his tax liability for PY 2022-23 of Rs. 1,00,000. What advance tax instalments does he need to pay?

- (a) 1,00,000 by 15.3.2023 (b) 50,000 by 15.9.2022 and 50,000 by 15.3.2023  
 (c) 1,00,000 by 31.3.2023 (d) 15,000 by 15.6.2022, 30,000 by 15.9.2022, 30,000 by 15.12.2022 and 25,000 by 15.3.2023

**M76.** Mr. Q has estimated his total income for PY 2022-23 at Rs. 6 lakh but he has not paid advance tax. His total income for PY 2020-21 has been assessed at Rs. 8 lakh by way of regular assessment (he filed his return of income for the said PY declaring a total income of Rs. 7 lakh). He has filed his return of income for PY 2021-22 on 1.9.2022 declaring a total income of Rs. 9 lakh. The Assessing Officer, noticing that Mr. Q has not been paying advance tax instalments for the PY 2022-23, wants to issue an order to Mr. Q requiring him to pay advance tax. For advance tax on what amount of total income can the Assessing Officer issue such order and latest by when?

- (a) On Rs. 6 lakh; latest by 28.2.2023 (b) On Rs. 9 lakh; latest by 28.2.2023  
 (c) On Rs. 7 lakh; latest by 28.2.2023 (d) On Rs. 8 lakh; latest by 28.2.2023

**M77.** Mr. B, a resident aged 39 years, has estimated particulars of his income for PY 2022-23 as under: Business income of Rs. 6 lakh, loss from house property of Rs. 2 lakh, long term capital gain on sale of equity shares u/s 112A of Rs. 2 lakh and investment in PPF of Rs. 1.5 lakh. Tax of Rs. 10,000 is deducted at source out of the total tax deductible at source of Rs. 15,000. Compute the advance tax payable by Mr. B for FY 2022-23. Mr. B has not opted for section 115BAC.

- (a) 400 (b) 10,400  
 (c) 20,800 (d) Nil

**M77a.** Mr. Z, a resident, celebrated his 60<sup>th</sup> birthday on 1.12.2022. He earned salary income of Rs. 6 lakh (computed) during the year. He also won a lottery prize for Rs. 7 lakh during the year. Compute his advance tax liability for FY 2022-23.

- (a) 2,08,000 (b) 31,200  
 (c) 2,18,400 (d) Nil

**M77b.** Suresh and Mukesh are brothers, residents in India, of the age 60 years and 57 years, respectively. Both of them won a lottery jackpot prize of Rs. 9 lakh during the FY 2022-23. Tax was duly deducted at source. This is the only source of income for them. Determine whether Suresh and Mukesh are liable to pay advance tax during the FY 2022-23?

- (a) Only Suresh is liable (b) Only Mukesh is liable  
(c) Both Suresh and Mukesh are liable (d) None of them is liable

**M78.** Mr. J, a resident aged 40 years, has estimated particulars of his income for PY 2022-23 as under: Salary of Rs. 10 lakh (computed) and dividend of Rs. 50,000. TDS of Rs. 1,00,000 deducted out of total TDS deductible of Rs. 1,10,000. Compute the total advance tax payable by Mr. J up to the instalment date of 15.12.2022. Mr. J has not opted for section 115BAC.

- (a) 32,600 (b) 16,950  
(c) 24,450 (d) Nil

**M79.** Mr. Q, aged 44 years, estimated his tax liability for PY 2022-23 at Rs. 1,00,000. He paid advance tax of Rs. 60,000 only once on 15.3.2023. Interest will be levied under which provision?

- (a) Only 234B (b) Only 234C  
(c) 234B and 234C (d) None

**M80.** Mr. M, aged 40 years, computed his tax liability for PY 2022-23 at Rs. 98,780. He paid Rs. 65,430 as advance tax during the FY 2022-23. Tax deducted at source is Rs. 10,000. Compute the interest chargeable u/s 234B payable on self-assessment at the time of filing return of income on 25.7.2023.

- (a) 1,334 (b) 934  
(c) 1,541 (d) 932

**M81.** Mr. T, aged 55 years, computed his tax liability for PY 2022-23 at Rs. 86,500. He paid Rs. 78,000 as advance tax during the FY 2022-23. Compute the interest chargeable u/s 234B payable on self-assessment at the time of filing return of income on 15.9.2023.

- (a) Nil (b) 510  
(c) 5,190 (d) 850

**M81a.** Interest u/s 234C is calculated with reference to the tax on:

- (a) Income estimated by the assessee (b) Income assessed by the tax authority  
(c) Income returned by the assessee (d) Income of the preceding PY

**M82.** Mr. Z estimated his tax liability for FY 2022-23 at Rs. 50,000 but filed his return of income on 20.7.2023 showing tax of Rs. 60,000 on the returned income. He did not pay advance tax. Upon assessment, the AO determined the tax of Rs. 65,000. Compute the interest that he will need to pay u/s 234C.

- (a) 2,340 (b) 3,030  
(c) 5,410 (d) 3,480

**M83.** Mr. C, a resident aged 50 years, won a lottery prize of Rs. 8 lakh on 15.11.2022. He did not pay any advance tax. He has no other source of income. Compute the interest that he will need to pay u/s 234B and 234C at the time of filing his return of income on 31.7.2023. Mr. C has not opted for section 115BAC.

- (a) 234B Rs. 384; 234C Nil (b) 234B Nil; 234C Rs. 454  
(c) 234B Rs. 384; 234C Rs. 454 (d) 234B Nil; 234C Nil

**M84.** Mr. J, a lawyer and a resident aged 42 years, has estimated gross receipts from profession for FY 2022-23 at Rs. 50 lakh and income chargeable under the head IFOS at Rs. 15 lakh. He has opted for presumptive income determination u/s 44ADA. Tax deducted at source during the year is Rs. 2,50,000. He paid advance tax of Rs. 5,00,000 on 15.3.2023 and filed return of income on 25.7.2023. He has not opted for section 115BAC. Compute the interest u/s 234B and 234C that he will be liable to pay upon self-assessment at the time of filing return of income.

- (a) 15,150 (b) 47,667  
(c) 23,467 (d) Nil

**M85.** Relief from interest payable u/s 234C is not available in respect of shortfall in payment of advance tax on account of under estimate or failure to estimate which of the following incomes:

- (a) Long term capital gain (b) Short term capital gain  
(c) Winning from lottery (d) Income from house property purchased during the FY

## Answer Key for MCQs

M1 C; M2 B; M3 D; M4 C; M5 D; M6 A; M6a D; M7 D; M8 C; M9 B; M10 A; M11 D; M12 A; M13 D; M14 C; M14a C; M15 A; M16 D; M17 B; M18 C; M19 A; M20 C; M21 D; M22 B; M23 D; M24 C; M25 B; M26 A; M27 B; M28 D; M29 C; M30 B; M31 C; M31a C; M32 C; M33 B; M34 A; M35 A; M36 C; M37 B; M38 A; M39 D; M40 C; M41 C; M42 D; M43 B; M43a B; M43b D; M44 B; M45 B; M46 A; M46a D; M46b D;

M47 C; M48 B; M49 C; M50 D; M51 C; M52 D; M53 A; M54 B; M55 C; M56 D; M57 A; M58 C; M59 D;  
 M60 B; M61 B; M62 A; M63 C; M64 D; M65 C; M66 D; M67 D; M68 B; M69 A; M70 A; M71 C; M72 D;  
 M73 C; M74 D; M75 A; M76 B; M77 D; M77a D; M77b B; M78 C; M79 C; M80 D; M81 A; M81a C; M82 B;  
 M83 D; M84 A; M85 D

## Hints to MCQ answers

**M1.** Payer in case of TDS and seller in case of TCS.

**M2.** Tax on total income of 10 lakh = 1,17,000. Net tax payable = 1,17,000 – 10,000 TDS = 1,07,000.

**M4.** Total income = 12,00,000 salary – 50,000 standard deduction u/s 16 – 1,50,000 deduction u/s 80C = 10,00,000. Tax = 1,17,000. TDS p.m. = 1,17,000 / 12 = 9,750.

**M5.** Total income = 7,20,000 salary – 50,000 standard deduction u/s 16 – 2,00,000 loss under the head IHP (up to 2 lakh) + 1,00,000 other income = 5,70,000. Tax = 27,560. TDS p.m. = 27,560/12 = 2,297.

**M6.** A. Accumulated balance is exempt as service is terminated due to discontinuance of employer's business. Hence, no TDS. B/C/D: Amounts are taxable under the head 'Salaries'. Time of TDS is not deferred where employer is not an eligible startup.

**M6a.** Tax deductible u/s 192 from the salary during the FY 2022-23 is computed as under:

Particulars	Rs.
Salary including all income by way of non-monetary perquisites	54,00,000
Tax on non-monetary perquisite paid by employer on behalf of employee is exempt u/s 10(10CC)	-
Standard deduction and deduction u/s 80C for PPF deposit is not available u/s 115BAC	-
Total income	54,00,000
Tax (including SC and HEC) on 54,00,000 u/s 115BAC	15,52,980
Average rate of tax = 15,52,980 / 54,00,000 × 100	28.7589%
Tax payable on non-monetary perquisite by Z Ltd. = 28.7589% of 6,00,000	1,72,553
Tax to be deducted from salary u/s 192 = 28.7589% of 48,00,000 (54,00,000 – 6,00,000)	13,80,427

**M7.** Accumulated balance is exempt since continuous service has been rendered for 7 years. Aggregate period of previous and new employer is considered where balance is transferred to the account with the new employer. Hence, no TDS.

**M8.** TDS u/s 193 = GOI bonds NIL (as it is a Government security) + Savings Bonds NIL (as amount is not > 10,000) + Debenture of BCD Ltd. 750 @ 10% (as amount is > 5,000) + Listed bonds in demat form NIL + Debentures of CDF Pvt. Ltd. 300 @ 10% = 1,050.

**M9.** TDS is not deductible u/s 193 as amount for each payer is not > 5,000.

**M10.** Mr. C is a senior citizen. Amount liable for TDS u/s 194A = FD with SBI NIL (as interest is not > 50,000) + FD with PNB NIL (as interest is not > 50,000) + FD with HDFC 55,000 (as interest is > 50,000) + RD with Seema Gramin Bank NIL (as interest per branch is not > 50,000 since bank has not adopted CBS) + Corporate deposit-I Nil (as interest is not > 5,000) + Corporate deposit-II 8,000 (as interest is > 5,000) = 63,000.

**M11.** Rakesh is a specified individual u/s 194A as turnover from business in preceding FY is > 1 crore. Interest paid to firm is liable to TDS but interest paid to bank is not liable. Deduction in computing business income = 70,000 interest – 6,000 disallowed u/s 40(a)(ia) (30% of 20,000) = 64,000.

**M12.** TDS u/s 194A = Interest from firm NIL (as paid by firm to its partner) + Interest on IT refund NIL (as paid by Government under IT Act) + Interest on savings bank A/c NIL (as it is not a time deposit) + On loan to friend NIL (as friend is not a specified individual covered u/s 194A since gross receipts from profession in preceding FY is not > 50 lakh) = Nil

**M13.** TDS u/s 194 = Bonus preference shares and loan treated as dividend u/s 2(22)(b) and 2(22)(e) 11,250 (10% of 1,12,500) + Dividend from ZZ Ltd. NIL (as amount is not > 5,000) + Dividend from QQ Ltd. 1,200 (as amount is > 5,000; 20% rate u/s 206AA as PAN is not furnished) = 12,450.

**M14.** TDS u/s 194 = Dividend to 5 shareholders NIL (as amount is not > 5,000 for each) + Dividend to 3 shareholders 2,250 @ 10% (as amount is > 5,000 for each) + Dividend to 2 shareholders 4,000 @ 20% (as amount is > 5,000 for each; 20% rate u/s 206AA as PAN is not furnished) = 6,250.

**M14a.** TDS is deductible u/s 194 @ 10%. Exemption from TDS is not available as, though the amount is not > 5,000, dividend is paid in cash.

**M15.** TDS u/s 194K = Income from HDFC MF 675 @ 10% (as aggregate income of 6,750 is > 5,000) + Income from JM MF NIL (as aggregate income of 4,000 is not > 5,000) + NIL on capital gain = 675.

**M16.** TDS u/s 194DA: No TDS on sum received on death as it is exempt u/s 10(10D). Policy on her life: Not exempt u/s 10(10D) as premium is > 10% of sum assured. TDS = 5% of 8,75,000 being income comprised in the payment (20,00,000 proceeds – 11,25,000 premiums paid) = 43,750.

**M17.** Safe insurance company: Proceeds are not exempt u/s 10(10D) as premium is > 10% of sum assured. TDS u/s 194DA @ 5% on 37,500 being income comprised in the payment (5,37,500 proceeds – 5,00,000 premiums paid) = 1,875. // Suraksha insurance company: Sum is exempt u/s 10(10D) as premium is not > 20% of sum assured (since policy issued before 1.4.2012).

**M18.** TDS u/s 194B and 194BB = Lottery prize 9,000 @ 30% (as winning is > 10,000) + Card game NIL (as winning is not > 10,000) + jackpot prize 2,25,000 (@ 30% of 7,50,000; as winning is > 10,000) + horse race 15,000 @ 30% (as winning is > 10,000; 30% rate applies even u/s 206AA where PAN is not furnished) = 2,49,000. Receipts in cash = 30,000 + 5,000 + 2,50,000 + 50,000 – 2,49,000 of TDS = 86,000.

- M19.** TDS u/s 194D = For JKL NIL (as amount is not > 15,000) + For PQM 1,125 @ 5% (as amount is > 15,000) = 1,125
- M20.** TDS u/s 194G = 5% of 1,20,000 for Assam State Lottery (as amount is > 15,000) = 6,000. TDS is not deductible for Goa State Lottery as amount is not > 15,000.
- M21.** TDS is deductible u/s 194H on commission from Green Wind Pvt. Ltd. as aggregate amount is > 15,000. TDS @ 5% of 75,000 = 3,750. TDS is not deductible on discount on purchase of mobile phones as element of agency is not present.
- M22.** TDS u/s 194H = First company Nil (as amount is not > 15,000) + Second and third companies 1,875 (@ 5% on 37,500 as amount from each is > 15,000) = 1,875. Turnover criteria in the preceding FY is relevant only to an individual or HUF.
- M23.** Aggregate of sums paid during the FY is > 1 lakh, even though each sum is not > 30,000. TDS u/s 194C = 1% of 1,25,000 = 1,250.
- M24.** TDS u/s 194C = Shine Pvt. Ltd. 750 (@ 2% of 37,500, since the sum is > 30,000) + Indian Railways Nil (as transport by Railways is excluded) + Caterers Nil (as it is for personal purposes) + Dinesh Nil (as it is for personal purposes) + Rohit Nil (it is not 'work' as material is not purchased by Mr. Rohit from Mr. Raja or his associate. King Pvt. Ltd. is not his associate as he holds < 20% equity shares therein) = 750.
- M25.** Raman HUF is a specified HUF covered u/s 194C as turnover from business in preceding FY is > 1 crore. Each payment is > 30,000. TDS u/s 194C @ 2% of 90,000 = 1,800. Exemption to goods carriage operator is not available as the required declaration, along with PAN, is not furnished.
- M26.** Books are supplied as per specifications using material purchased from the payer. Value of material is separately shown in invoice. TDS u/s 194C @ 1% of 30,000 (90,000 – 60,000) = 300.
- M27.** TDS u/s 194J = From Mantle Pvt. Ltd. 3,750 (@ 10% of 37,500 since sum is > 30,000) + From Roman HUF 1,050 (@ 2% of 52,500 since sum is > 30,000 and HUF is specified u/s 194J as turnover from business in preceding FY is > 1 crore) + From Axis Pvt. Ltd. 1,500 (@ 10% of 15,000; there is no threshold) + From Shine & Co 7,500 (@ 10% of 75,000 since sum is > 30,000) + From Bright Ltd. 15,000 (@ 10% on 1,50,000 since sum is > 30,000) = 28,800.
- M28.** Jolly is a specified individual u/s 194J as gross receipts from profession is > 50 lakh in preceding FY. TDS u/s 194J = To lawyer 4,500 (@ 10% of 45,000 as aggregate of sums is > 30,000) + To Sharp Pvt. Ltd. NIL (individual is not liable to deduct TDS on royalty) + To Ramola NIL (as FPS is paid for personal purposes) + To Webtel Pvt. Ltd. NIL (as conditions of Notification 21/2012 are fulfilled) = 4,500.
- M29.** Jolly is not a specified individual u/s 194H, 194C and 194J as gross receipts from profession is not > 50 lakh in preceding FY. TDS u/s 194M = To building contractor 3,00,000 (@ 5% of 60 lakh as the sum is > 50 lakh; exemption regarding sum paid for personal purpose is not available) + To FinEx NIL (as sum is not > 50 lakh) + To lawyer NIL (as sum is not > 50 lakh) = 3,00,000.
- M30.** Bonny is a specified individual u/s 194J as turnover from business in preceding FY is > 1 crore. But TDS is not deductible u/s 194J as FPS is paid for personal purposes. TDS is deductible u/s 194M as sum is > 50 lakh. TDS @ 5% of 60 lakh = 3 lakh.
- M31.** Ruhi is a specified individual u/s 194H, 194C and 194J as gross receipts from profession is > 50 lakh in preceding FY. TDS is not deductible u/s 194H on commission as amount is not > 15,000. TDS is not deductible u/s 194C for supply of gift items as it is not a 'work' since the gift shop has not used material purchased from Ruhi or her associate. TDS is not deductible u/s 194J for payment to doctor as sum is paid for personal purposes. TDS is not deductible u/s 194M as sum paid to each person is not > 50 lakh.
- M31a.** As Jacky has declared profits u/s 44ADA, gross receipts in profession are not > 50 lakh in the preceding FY. Hence, he is not covered as a specified individual u/s 194H and 194C. TDS is also not deductible u/s 194M as sum paid to Rohit and Jagat, each, is not > 50 lakh.
- M32.** Keshav is a specified individual u/s 194-I as turnover from business in preceding FY is > 1 crore. TDS u/s 194-I = Bull Ltd. NIL (as rent is not > 2.4 lakh) + Bear Ltd. 5,000 (@ 2% of 2,50,000 as rent is > 2.4 lakh) + Trade Smart Ltd. NIL (as rent of 2,00,000 (excluding refundable deposit) is not > 2.4 lakh) + Leaseman Ltd. 37,500 (@ 10% of 3,75,000 as rent is > 2.4 lakh; it is not relevant if the company does not own the building) = 42,500.
- M33.** TDS is deductible u/s 194-I. Advance rent, arrears of rent and non-refundable deposit are included. Amount is > 2.4 lakh. TDS @ 10% is deductible on Rs. 4 lakh.
- M34.** TDS is deductible u/s 194-I. Aggregate rent of 2,50,000 is > 2,40,000. TDS = 2% of 1,00,000 + 10% of 1,50,000 = 17,000.
- M35.** Mr. Q is a specified individual u/s 194-I as gross receipts from profession in preceding FY is > 50 lakh. Rent is > 2.4 lakh. TDS is deductible u/s 194-I @ 10%.
- M36.** Krishna is not a specified individual u/s 194-I as he is not engaged in a business or profession. TDS is not deductible u/s 194-I. Monthly rent is > 50,000. Since PAN is not furnished, rate of TDS is 20% u/s 206AA. TDS @ 20% of 5,40,000 = 1,08,000. This is to be deducted from rent of March (last month of PY) but it cannot exceed the amount of rent payable for that month. Thus, TDS = 60,000. Rent actually paid for PY = 5,40,000 – 60,000 = 4,80,000.
- M37.** Shirish is not a specified individual u/s 194-I as gross receipts from profession in preceding FY is not > 50 lakh. Rent of house is > 50,000 p.m. TDS u/s 194-IB = 5% of 4,59,000 = 22,950. TDS is not deductible u/s 194-IB on plant and machinery.
- M38.** Transfer of house: TDS is deductible u/s 194-IA as consideration of 55 lakh (including charges for club and parking) and SDV of 54 lakh are both not < 50 lakh. TDS @ 1% of 55 lakh (higher of 55 lakh or 54 lakh) = 55,000. // Transfer of urban agricultural land: TDS is not deductible u/s 194-IA as consideration and SDV are both < 50 lakh.
- M39.** TDS u/s 194-IA (since consideration and SDV are both not < 50 lakh) = 1% of 70 lakh (higher of 60 lakh or 70 lakh = 70,000. // Income taxable under the head IFOS u/s 56(2)(x) on receipt of flat: Excess of 10 lakh (SDV 70 lakh – FVC 60 lakh) is > 50,000 and SDV is > 110% of consideration. Hence, 10 lakh is taxable. Tax on total income of 10 lakh = 1,17,000. // Total tax to pay to the Government for self and on behalf of Bhriгу = 1,17,000 + 70,000 = 1,87,000.
- M40.** TDS is not deductible u/s 194LA on compulsory acquisition of agricultural land. TDS u/s 194LA on acquisition of building = 10% of 11,25,000 = 1,12,500.



- M41.** Mr. Sohan provides services which are facilitated by Med Net Pvt. Ltd. through its website. Exemption from TDS u/s 194-O is not available as PAN/Aadhaar is not furnished. As PAN is not furnished, rate of TDS is 5% u/s 206AA. TDS to be deducted by Med Net Pvt. Ltd. u/s 194-O = 5% of 3,00,000 = 15,000. TDS is not deductible u/s 194J for consultation fees from own clinic.
- M42.** Sale of goods is facilitated by Amazon/Flipkart through their websites. TDS is deductible u/s 194-O. For Amazon, TDS is not to be deducted as gross amount of sales is not > 5 lakh and he has furnished PAN. For Flipkart, TDS is to be deducted as gross amount of sales is > 5 lakh. TDS = 1% of 7,50,000 = 7,500.
- M43.** Turnover from the business carried on by Mr. C for the preceding FY is > 10 crore, QR Ltd. is a resident and the sum paid/credited is > 50 lakh during the current FY. TDS will be deducted u/s 194Q on the sum exceeding 50 lakh. Thus, TDS = 0.1% of 30 lakh = 3,000.
- M43a.** Sponsored trip is a benefit or perquisite provided by PQR Ltd. to Mr. C, a resident, arising from his business. Value is the cost to the company of Rs. 10 lakh which is > 20,000. TDS is deductible u/s 194R @ 10%, i.e., Rs. 1 lakh.
- M43b.** Sale of goods to Mr. X at rebate of 30%: TDS is not deductible u/s 194R in view of relaxation provided by Circular 12/2022. // TV Set to Mr. Y: TDS is deductible u/s 194R as value is > 20,000. TDS @ 10% = 5,000. // Expenditure on dealer conference of Rs. 30,00 per dealer: TDS is not deductible u/s 194R in view of Circular 12/2022. // Additional expenditure on Mr. Z: Though it is a benefit or perquisite covered u/s 194R, TDS is not deductible as value is not > 20,000. // Providing new product to Ms. A: TDS is deductible u/s 194R as Ms. A retained the product and value thereof is > 20,000. Rate of TDS is 20% u/s 206AA as PAN is not furnished by Ms. A. TDS @ 20% = 5,000. // Total TDS u/s 194R = 10,000.
- M44.** Bill Jones is a non-resident not being a citizen of India and a sportsman. TDS u/s 194E = 20% (plus 4% HEC) on 7,10,000 (6,00,000 for participation in India in a sport + 1,00,000 for advertisement + 10,000 for contribution of article relating to sport in India in a magazine) = 1,47,680. TDS is not deductible on winning from card game u/s 194B as winning is not > Rs. 10,000. Deduction is not allowed for any expenditure.
- M45.** Mr. Mohan has duly filed the return for all of the 3 PYs, for which the time limit to file return u/s 139(1) has expired, immediately preceding the PY 2022-23. Hence, threshold u/s 194N is 1 crore. TDS u/s 194N = On payment from HDFC NIL (as aggregate is not > 1 crore) + On payment from ICICI 2,20,000 (@ 2% of 1.1 crore as it is > 1 crore) + On payment from Post Office NIL (as payment is not > 1 crore) = 2,20,000.
- M46.** Mr. Krishna has not filed the return for all of the 3 PYs, for which the time limit to file return u/s 139(1) has expired, immediately preceding the PY 2022-23. Threshold u/s 194N is 20 lakh. TDS u/s 194N = On payment from Bihar coop bank @ 5% of 1.5 crore (as sum is > 1 crore) + On payment from Post Office @ 2% of 30 lakh (as sum is > 20 lakh and up to 1 crore) + On payment from BOI NIL (as sum is not > 20 lakh) = 7,50,000 + 60,000 = 8,10,000.
- M46a.** Mr. Rohan is a resident individual of age 75 years or more during the PY, he has income from pension and interest from the same specified bank and no other income and he has furnished the prescribed declaration to the Bank. Conditions of section 194P are satisfied. Bank will compute his total income deduct TDS thereon. GTI = 2,50,000 salary (3,00,000 – 50,000 standard deduction) + 5,20,000 interest = 7,70,000. Total income = 7,70,000 GTI – 1,00,000 deduction u/s 80C – 50,000 deduction u/s 80TTB = 6,20,000. Tax = 24,960
- M47.** A. Higher of 30% regular rate or 20%, i.e., 30%. B. It is MMR of 42.7445. C. 20% rate u/s 206AA is not required to be increased by SC and HEC. D. Higher of 1% regular rate or 5%, i.e., 5%.
- M48.** TDS u/s 194H is to be deducted @ 5% at the time of earlier of credit or payment. Thus, 2,500 is to be deducted on 20.3.2023.
- M49.** TDS will be deducted u/s 194J @ 10% of 1,00,000 = 10,000. TDS will be deducted on amount payable without including GST on services component as it is indicated separately.
- M50.** TDS is not deductible on sum payable to these entities by virtue of section 196.
- M51.** Section 194C is not covered u/s 197A. It is covered u/s 197.
- M52.** Life insurance proceeds are covered u/s 194DA. It is not covered u/s 197. It is covered u/s 197A but Suhana cannot avail the benefit of this provision since the sum of 3 lakh is > 2.5 lakh basic exemption limit.
- M53.** Interest on bank FD is covered u/s 194A and dividend is covered u/s 194. These sections are covered u/s 197 and 197A. Mr. K is a senior citizen. Since tax on his estimated total income will be Nil, he can furnish a declaration to the payer u/s 197A consequent to which TDS will be not be deducted.
- M54.** Exemption is available u/s 194C and 194J.
- M58.** TDS certificate should be issued within 15 days from the due date for furnishing the Statement of TDS.
- M59.** Exempted from the requirement to comply with the provisions of TAN u/s 203A.
- M60.** Statement of TDS should be furnished by 31.5.2023.
- M61.** Section 201(1A) provides for simple interest.
- M62.** TDS to be deducted on 1.9.2022, i.e., the earlier of credit or payment. TDS is deducted with a delay of 15 days. It is deposited on time, i.e., by 7.10.2022. Interest u/s 201(1A) for delay in deduction = 1% p.m. of 20,000 for 1 month (part of month is taken as 1 month) = 200.
- M63.** TDS is deducted on time (i.e., earlier of credit or payment). It is to be deposited within 30 days from the end of the month in which TDS is deducted, i.e., by 30.4.2023. There is delay in deposit. Interest u/s 201(1A) = 1.5% p.m. of 3 lakh for 3 months (1.3.2023 to 15.5.2023; part of month is taken as 1 month) = 13,500.
- M64.** A. Mr. B is not a specified individual. Hence, not covered as a seller u/s 206C(1). B. TCS is not collectible u/s 206C(1) where buyer purchases goods in retail sale for personal consumption. C. Buyer u/s 206C(1) does not include the Government. D. Exemption from TCS is not available u/s 206C(1) when goods are to be utilized for trading purposes.

**M65.** Mr. C is a specified individual covered u/s 206C(1) as turnover from business in the preceding FY is > 1 crore. Alcoholic liquor for human consumption is a specified good. Liquor is not purchased by buyer in retail sale for personal consumption. Since PAN is not furnished by buyer, rate of TCS u/s 206CC is 5%. TCS u/s 206C(1) = 5% of 10 lakh = 50,000.

**M66.** Lease is granted for use of mine for the purpose of business. TCS will be collected u/s 206C(1C) @ 2% of 3,75,000 = 7,500.

**M67.** A: No TCS u/s 206C(1F) as value of each car is not > 10 lakh; B: No TCS as State Government is not a buyer u/s 206C(1F); C: No TCS u/s 206C(1F) as consideration is not received; D: TCS will be collected u/s 206C(1F) as value is > 10 lakh for each car.

**M68.** TCS will be collected u/s 206C(1G) @ 5% of the aggregate of the amount in excess of 7 lakh remitted by the buyer in the FY.

**M69.** Receipt is from the buyer who has purchased an overseas tour program package. TCS u/s 206C(1G) will be @ 5% of 10 lakh.

**M70.** TCS is not collectible u/s 206C(1F) as value of each car is not > 10 lakh. TCS is not collectible u/s 206C(1H) as buyer is the State Government.

**M71. Sale to transport company:** TCS is collectible u/s 206C(1F) as value of each car is > 10 lakh. TCS = 1% of 75 lakh = 75,000. TDS is not deductible u/s 194Q as TCS is collectible u/s 296C(1F). TCS is not collectible u/s 206C(1H) as goods are covered u/s 206C(1F). // *Sale to car distributor:* Though value of each car is > 10 lakh, TCS is not collectible u/s 206C(1F) since it is not a retail sale. TDS is not deductible u/s 194Q as turnover of buyer is not > 10 crore in the preceding FY. TCS is collectible u/s 206C(1H) as turnover of seller is > 10 crore in the preceding FY, sale consideration is > 50 lakh, goods are not covered u/s 206C(1F) and buyer is not liable to deduct TDS u/s 194Q. TCS u/s 206C(1H) = 0.1% of 10 lakh (60 lakh – 50 lakh) = 1,000. // Total TCS = 75,000 + 1,000 = 76,000.

**M72.** A and C. Not liable as tax is < 10,000. B. Not liable as he is a senior citizen not having income under the head PGBP. D. Though he is a senior citizen, he has income under the head PGBP and tax is not < 10,000.

**M73.** Advance tax payable = Not less than 45% of the advance tax – Amount, if any, paid in the earlier instalment = 9,000 (45% of 20,000) – 2,000 = 7,000.

**M74.** Advance tax payable = Not less than 75% of the advance tax – Amount(s), if any, paid in the earlier instalment(s) = 37,500 (75% of 50,000) – 40,000 = Nil.

**M75.** 100% of advance tax needs to be paid by 15 March.

**M76.** Current income will be the higher of (a) total income of the latest PY in respect of which the assessee has been assessed by way of regular assessment (8 lakh), or (b) total income returned by the assessee in any return furnished by him for any subsequent PY (9 lakh) = 9 lakh. Order can be made latest by last day of February.

**M77.** Total income = 6,00,000 business income + 2,00,000 LTCG u/s 112A – 2,00,000 loss from IHP – 1,50,000 deduction u/s 80C = 4,50,000. // Tax on LTCG (exceeding 1 lakh) u/s 112A @ 10% of 1,00,000 = 10,000. Tax on balance income of 2,50,000 at regular rates = Nil. Rebate u/s 87A is not available on tax u/s 112A. Tax = 10,000 + 400 HEC = 10,400. // Advance tax payable = 10,400 – TDS deducted 10,000 = 400. Advance tax is not payable as it is < 10,000.

**M77a.** Mr. Z is a senior citizen not having income chargeable under the head PGBP. Hence, advance tax is not payable.

**M77b.** Advance tax = Tax on total income of 2,80,800 (@ 30% u/s 115BB plus 4% HEC) – TDS of 2,70,000 (30% u/s 194B) = 10,800. Amount is not < 10,000. Hence, Mukesh is liable to pay advance tax. Suresh is not liable as he is a senior citizen not having income chargeable under the head PGBP.

**M78.** Tax on total income of 10,50,000 = 1,32,600. Advance tax payable = 1,32,600 – TDS deducted 1,00,000 = 32,600. Total advance tax payable by the instalment date of 15 December = 75% of 32,600 = 24,450.

**M79.** Interest will be levied u/s 234B as advance tax paid of 60,000 is < 90,000 being 90% of assessed tax. Interest will be levied u/s 234C for deferment of advance tax.

**M80.** Interest u/s 234B is payable as advance tax paid of 65,430 is < 79,902 (90% of assessed tax of 88,780). Interest = 1% p.m. for 4 months (1.4.2023 to 25.7.2023; part of month is taken as full month) on 23,300 (98,780 Tax – 10,000 TDS – 65,430 advance tax paid = 23,350; fraction of Rs. 100 is ignored) = 932.

**M81.** Advance tax paid of 78,000 is not less than 77,850 (90% of assessed tax of 86,500). Hence, interest u/s 234 is not payable.

**M82.** For 15 June instalment: 1% p.m. × 3 months × Shortfall of 9,000 (15% of 60,000) = 270. For 15 Sep instalment: 1% p.m. × 3 months × Shortfall of 27,000 (45% of 60,000) = 810. For 15 Dec instalment: 1% p.m. × 3 months × Shortfall of 45,000 (75% of 60,000) = 1,350. For 15 Mar instalment: 1% × Shortfall of 60,000 (100% of 60,000) = 600. Total interest = 3,030. // Shortfall is calculated with reference to the tax due on returned income, i.e., 60,000.

**M83.** Advance tax = 2,49,600 tax on total income (@ 30% of 8,00,000 u/s 115BB plus 4% HEC) – 2,40,000 TDS @ 30% u/s 194B = 9,600. Advance tax is not payable as the amount is < 10,000. Hence, interest is not chargeable.

**M84.** Total income = PGBP 25 lakh (50% of 50 lakh u/s 44ADA) + IFOS 15 lakh = 40 lakh. Since profits and gains are declared u/s 44ADA, whole of advance tax is payable by 15.3.2023. // Assessed tax and tax due on returned income = Tax on total income of 40 lakh of 10,53,000 – TDS 2,50,000 = 8,03,000. // Interest u/s 234B is payable as advance tax paid of 5,00,000 is < 7,22,700 (90% of assessed tax of 8,03,000). Interest u/s 234B = 1% p.m. for 4 months (1.4.2023 to 25.7.2023; part of a month is taken as full month) on shortfall of 3,03,000 (8,03,000 assessed tax – 5,00,000 advance tax paid) = 12,120. // Interest u/s 234C = 1% of shortfall of 3,03,000 (8,03,000 tax due on returned income – 5,00,000 advance tax paid up to 15 March) = 3,030. // Total interest = 15,150.



# 15 Return of Income

## Build Your Confidence (BYC)

**B1-10. 139(1)** – Determine if return of income u/s 139(1) is required to be furnished in the following situations for AY 2023-24 and also determine the due date in this respect.

#	Situation
1	C Ltd., having a turnover of Rs. 6 crore, has total income being a loss of Rs. 10 lakh.
2	CD & Co, a partnership firm, having turnover of Rs. 10.5 crore, has Nil total income and Nil tax liability. Its gross total income is Rs. 2.5 lakh.
3	Mr. X, a resident of age 80 years deriving income from pension, has a total income of Rs. 2 lakh (after claiming deductions u/s 80C and 80D of Rs. 2 lakh) and tax liability is Nil.
4	In #3 above, assume that Mr. X is of the age of 70 years.
5	In #3 above, assume that during the PY, Mr. X incurred expenditure on consumption of electricity of Rs. 1.5 lakh and on travel to France of Rs. 1.5 lakh.
6	Mr. J, a resident of age 45 years, computed his total income of Rs. 1 lakh after claiming deduction u/s 54EC of Rs. 1 lakh and u/s 80C of Rs. 20,000. He also claimed exemption in respect of share of profit of Rs. 50,000 received from a partnership firm, in which he was a partner. The business turnover of the firm was Rs. 1.5 crore (10% of total payments made by the firm during the year were in cash).
7	In #6 above, assume that the total income was computed at Rs. 1.5 lakh instead of Rs. 1 lakh.
8	Mr. D, a Chartered Accountant of age 55 years, having gross receipts from profession of Rs. 10 lakh, computed business income u/s 44ADA. His total income, after claiming set off of loss from house property of Rs. 2 lakh and loss under the head IFOS of Rs. 1 lakh, was Rs. 2 lakh. He did not claim any deduction under Chapter VIA. He had been staying in India all this time and he purchased a house in Australia on 15.4.2022.
9	Mr. V, a resident of age 80 years, has let out his house property in Goa to PQR Pvt. Ltd. on a rent of Rs. 50,000 p.m. He does not have any other source of income.
10	Mr. K, a resident of age 56 years, sold rural agricultural land in Haryana for Rs. 45 lakh (purchased 10 years back) and some of his personal effects for Rs. 6 lakh during the month of July, 2022. He utilized this money to purchase a plot of agricultural land for Rs. 30 lakh in August, 2022. He earned interest of Rs. 2 lakh on fixed deposits from the Bank of India. Receipts and payments were deposited in and made from his savings bank account with Bank of Maharashtra on which he earned interest of Rs. 40,000 during the year. He does not have any other source of income.

- Return is required to be furnished as C Ltd. is a company. Due date is 31.10.2023.
- Return is required to be furnished as CD & Co is a firm. Since turnover in business is > 10 crore, tax audit is applicable. Hence, due date is 31.10.2023.
- Return is not required to be furnished as the total income, before deduction under Chapter VIA, of 4 lakh is not > BEL of 5 lakh.
- Return is required to be furnished as the total income, before deduction under Chapter VIA, of 4 lakh is > BEL of 3 lakh. Due date is 31.7.2023.
- Return is required to be furnished as, although the total income, before deduction under Chapter VIA, of 4 lakh is not > BEL of 5 lakh and expenditure on foreign travel during the PY is also not > 2 lakh, but expenditure on consumption of electricity during the PY is > 1 lakh. Due date is 31.7.2023.
- Return is not required to be furnished as the total income, before exemption u/s 54EC and deduction under Chapter VIA, of 2.2 lakh is not > BEL of 2.5 lakh.
- Return is required to be furnished as the total income, before exemption u/s 54EC and deduction under Chapter VIA, of 2.7 lakh is > BEL of 2.5 lakh. Since 10% of total payments made by the firm are in cash, threshold of turnover for tax audit u/s 44AB is 1 crore. Since turnover in business of the firm is > 1 crore, tax audit is applicable for the firm. Since Mr. J is a partner of such firm, due date for him is 31.10.2023.

8. Return is required to be furnished as, although the total income of 2 lakh is not > BEL of 2.5 lakh, and total gross receipts in profession is not > 10 lakh, Mr. D is a resident (not being a RNOR since he has been staying in India all this time) and has held an asset located outside India at any time during the PY. Since he has not claimed business income lower than that computed u/s 44ADA, tax audit is not applicable. Due date is 31.7.2023.
9. Income from house property = 6 lakh NAV – 1.8 lakh standard deduction @ 30% = 4.2 lakh. TDS deducted by PQR Pvt. Ltd. u/s 194-I on rent = 10% of 6 lakh = 60,000. Return is required to be furnished as, although the total income of 4.2 lakh is not > BEL of 5 lakh, but aggregate of TDS deducted in his case during the PY is not < 50,000. Due date is 31.7.2023.
10. Since rural agricultural land and personal effects are not capital assets, capital gains do not arise on their transfer. Exemption u/s 54B is not available on purchase of agricultural land in absence of capital gain on transfer of land. Total income, before deduction under Chapter VIA, of 2.4 lakh (comprising interest) is not > BEL of 2.5 lakh. TDS is not deductible u/s 194-IA on transfer of rural agricultural land in India. TDS is not deductible u/s 194A on interest from savings bank a/c. TDS is deductible u/s 194A on interest from fixed deposits @ 10% of Rs. 2 lakh, i.e., Rs. 20,000. Thus, aggregate of TDS deducted in his case is < 25,000 during the PY. However, deposits in his savings bank account is not < 50 lakh during the PY. Hence, Mr. K is required to furnish his return. Due date is 31.7.2023.

**B11. 139(1) – CA2021(DEC) –** Mr. Prabhav aged 30 years, is a resident of India. During the FY 2022-23, interest of Rs. 3,00,000 was credited to his non-resident external (NRE) account with SBI. The same account has been maintained with the permission of RBI. Rs. 1,50,000 being interest on fixed deposit with SBI, was credited to his saving bank account during this period. He also earned Rs. 5,000 as interest on his savings bank account. He invested Rs. 50,000 in term deposit with SBI on 31.3.2023 for a period of five years. Is Prabhav required to file return of income under section 139(1) of the Income-tax Act 1961? What will be your answer if he has deposited Rs. 51,00,000 in current account in SBI and Rs. 50,00,000 in current account in co-operative bank respectively?

■ Mr. Prabhav is required to file ROI u/s 139(1) if his total income, before deductions under Chapter VIA, exceeds the basic exemption limit of 2.5 lakh.

*Computation of gross total income of Mr. Prabhav for AY 2023-24*

Particulars	Rs.
Interest from NRE account: Exempt u/s 10(4)(ii) since it is maintained with permission of RBI	-
Interest on fixed deposit with SBI	1,50,000
Interest on savings bank account	5,000
Gross total income, i.e., total income before deductions under Chapter VIA	1,55,000

As the total income, before deductions under Chapter VIA, is not > BEL of 2,50,000, Mr. Prabhav is not required to file return u/s 139(1) assuming the aggregate of TDS deducted and TCS collected in his case is < 25,000. However, if he deposits aggregate of amounts > 1 crore in one or more current accounts maintained with a bank (or a co-operative bank) during the PY, he will need to file the ROI u/s 139(1). Hence, if he deposits Rs. 1.01 crore in his current accounts, he will need to file the ROI.

**B12-14. 139(1) – CA2021(JULY) –** In the following cases relating to PY 2022-23, the total income of the assessee or the total income of any other person in respect of which he/she is assessable under the Income Tax Act does not exceed the basic exemption limit. You are required to state with reasons, whether the assessee is still required to file the return of income or loss for AY 2023-24 in each of the following independent situations:

1. Manish & Sons (HUF) sold a residential house on which there arose a long term capital gain of Rs. 12 lakh which was invested in capital gain bonds u/s 54EC so that no long term capital gain was taxable.
2. Archana was born in Germany and married in India. Her residential status u/s 6(6) is 'resident and ordinarily resident'. She owns a car in Germany which she uses for her personal purposes during her visit to her parents' place in that country.
3. Sudhakar has incurred an expenditure of Rs. 1,20,000 towards consumption of electricity, the entire payment of which was made through banking channels.

- 
1. Since total income of Manish & Sons (HUF) without giving effect to section 54EC would exceed the basic exemption limit of 2.5 lakh, ROI needs to be furnished.
  2. Since Archana is a resident (not being a RNOR) and she holds an asset located outside India, she would need to furnish ROI.<sup>1</sup>
  3. Since expenditure on consumption of electricity during the PY exceeds 1 lakh in the aggregate, Sudhakar needs to furnish ROI.

**Mistake by students – Failure to substantiate answer with correct reasoning.**

<sup>1</sup> As per an alternate view, personal car, being a personal effect, is not a capital asset and, hence, outside the scope of the ROI provision. As per this view, Archana need not furnish the ROI. Refer Footnote under para 232.1 of Concepts Book in this respect.

**B15. 139(1) – CA2011(NOV)** – Time limit for filing return u/s 139(1) in the case of Mr. A having total turnover of Rs. 45 lakh for the year ended 31.3.2023, whether or not opting to offer presumptive income u/s 44AD, is 31.10.2023. State with reasons, whether you agree or disagree?

■ If Mr. A opts for section 44AD, he would not be required to get his accounts audited u/s 44AB, in which case the due date to file ROI would be 31.7.2023. However, if he opts out of section 44AD, he would need to get his accounts audited u/s 44AB if his total income exceeds the basic exemption limit, in which case the due date to file ROI would be 31.10.2023.

**B16a. CA2021(JAN)** - Mr. Hari, aged 57 years, is a resident of India. He provides you the following details of his incomes pertaining to FY 2022-23.

- Interest on Non-Resident (External) Account maintained with State Bank of India as per RBI stipulations: Rs. 3,55,000
- Interest on savings bank account maintained with State Bank of India: Rs. 8,000
- Interest on fixed deposits with Punjab National Bank: Rs. 40,000

He seeks your advise on his liability to file return of income for AY 2023-24. What will be your answer, if he has incurred Rs. 4 lakh on travel expenses of his newly married son and daughter in law's honeymoon in Canada?

■

*Computation of total income of Mr. Hari for AY 2023-24*

Particulars	Rs.
Income from other sources:	
Interest on NR(E) Account with SBI: Exempt u/s 10(4)(ii) since it is maintained as per RBI stipulations	Nil
Interest on savings bank account with SBI	8,000
Interest on fixed deposits with PNB	40,000
Gross total income	48,000
Less: Deduction u/s 80TTA for interest on saving bank account	(8,000)
Total income	40,000

Since total income, before giving effect to section 80TTA, is 48,000 which is not more than basic exemption limit of 2.5 lakh, he is not required to file ROI u/s 139(1) for AY 2023-24 assuming the aggregate of TDS deducted and TCS collected in his case is < 25,000. However, if he incurs expenditure on foreign travel during the PY for himself or any other person which is more than 2 lakh, he will be required to file his ROI u/s 139(1).

**B16b. 139(1) – CA2012(MAY)** – Paras is resident of India. During the FY 2022-23, interest of Rs. 1,88,000 was credited to his Non-resident (External) Account with SBI. Rs. 30,000 being interest on fixed deposit with SBI was credited to his saving bank account during this period. He also earned Rs. 3,000 as interest on this saving account. Is Paras required to file return of income?

■

*Computation of total income of Paras for AY 2023-24*

Particulars	Rs.
Income from other sources:	
Interest on NR(E) Account with SBI: Exempt u/s 10(4)(ii) assuming specified conditions for exemption are satisfied	Nil
Interest on fixed deposit with SBI	30,000
Interest on saving bank account with SBI	3,000
Gross total income	33,000
Less: Deduction u/s 80TTA for interest on saving bank account (assuming Paras is not a senior citizen)	(3,000)
Total income	30,000

Since total income, before giving effect to section 80TTA is 33,000 which is not more than the basic exemption limit of 2.5 lakh, Paras is not required to file ROI for AY 2023-24.

**B16c. 139(1) – CA2018(NOV)** – Every person is required to file a return of income on or before due date in the prescribed form and manner as per section 139(1). What is the meaning of due date of filing income tax returns for different categories of assessee as per section 139(1) of the Income Tax Act, 1961? – Refer para 232.2 of Concepts Book

**B16d. 139(1) – CA2018(MAY)** – Indicate three situations where the return of income has to be compulsorily filed u/s 139(1). – Refer para 232.1 of Concepts Book

**B17. 139(1) – CA2020(NOV)** – State the conditions when a person is required to furnish income tax return in the prescribed form and manner on or before the due date even if such person (other than a company or a firm) is not otherwise required to furnish a return u/s 139(1). – Refer para 232.1 of Concepts Book

**B18-20. 139(4)** – Determine whether the return of income filed by Mr. X for AY 2023-24 is valid in the following cases:

#	Due date to file return u/s 139(1)	Date of filing of return	Date of completion of assessment
1	31.7.2023	15.11.2023	15.3.2024
2	31.10.2023	10.1.2024	10.2.2024
3	31.7.2023	31.12.2023	20.4.2024

- 1. Earlier of 3 months prior to the end of AY or completion of assessment is 31.12.2023. Return filed is valid as it is a belated return filed within the time allowed u/s 139(4).
- 2. Earlier of 3 months prior to the end of AY or completion of assessment is 31.12.2023. Return filed is not valid as it is not filed within the time allowed u/s 139(4).
- 3. Earlier of 3 months prior to the end of AY or completion of assessment is 31.12.2023. Return filed is valid as it is a belated return filed within the time allowed u/s 139(4).

**B21. 139(4) – CA2018(NOV)** – Mr. Subramaniam, due to inadvertent reasons, failed to file his income tax return for AY 2023-24. Can he file the return in the year 2024-25? If yes, when is the last date to file this return?

■ Belated return can be filed u/s 139(4) before the earlier of 3 months prior to the end of relevant AY, i.e., 31.12.2023 or completion of assessment. Hence, he cannot file the return in the year 2024-25.

**B22. REVISED RETURN – CA2019(NOV)** – Explain with brief reasons, whether the return of income can be revised u/s 139(5) in the following cases:

1. Defective or incomplete return filed u/s 139(9).
2. Return already revised once u/s 139(5).
3. Return of loss filed u/s 139(3).

- 1. Defective or incomplete return filed u/s 139(9) – It needs to be revised within 15 days from the date of intimation received from the AO or such further extended period. Return, so rectified, would be a valid return and it can, thereafter, be revised u/s 139(5), if the assessee discovers any omission or wrongful statement, within the time allowed u/s 139(5). Defective or incomplete return, not rectified within the time allowed, is an invalid return and, hence, it cannot be revised.
- 2. Return already revised once u/s 139(5) – Yes, it can be revised within the time allowed u/s 139(5).
- 3. Return of loss filed u/s 139(3) - Yes, it can be revised within the time allowed u/s 139(5), since return of loss is treated as a regular return filed u/s 139(1).

*Mistake by students – Improper reasoning for the answers.*

**B22a. REVISED RETURN – CA2022(MAY)** – Explain with brief reasons, whether the return of income can be revised u/s 139(5) of the Income-tax Act, 1961 in the following cases:

1. Belated return filed under Section 139(4)
2. Return already revised twice under Section 139(5)
3. Return of loss filed under Section 139(3)

- 1. Belated return filed u/s 139(4) can be revised.
- 2. Return already revised twice u/s 139(5) can be revised.
- 3. Return of loss filed u/s 139(3) can be revised assuming it was filed within the time allowed u/s 139(1), since such return is treated as a return u/s 139(1).

**B23. REVISED RETURN – CA2017(NOV)** – Mr. Sachin filed return on 30.9.2023 related to AY 2023-24. In the month of October 2023, his tax consultant found that the interest on fixed deposit was omitted in the tax return.

1. What is the time limit for filing a belated return?
2. Can Mr. Sachin file a revised return?

Justify the above with the relevant provisions u/s 139. Assume that the due date for furnishing return of income was 31.7.2023 and the assessment was not completed till the month of October, 2023.

■ Belated return can be furnished u/s 139(4) before the earlier of 3 months prior to the end of AY 2023-24 (i.e., 31.12.2023) or completion of assessment, whichever is earlier. Belated return filed on 30.9.2023 is valid. Mr. Sachin can revise the belated return before the earlier of 3 months prior to the end of AY 2023-24 (i.e., 31.12.2023) or completion of assessment, whichever is earlier, since he has noticed an omission in the return.

**B24. REVISED RETURN** – Mr. Jain furnished his return of income for AY 2023-24 on 25.9.2023. His income comprises of income from salaries, income from house property and interest from bank deposits. He realized later on 12.12.2023 that he has not claimed deduction u/s 80TTA on account of interest. Can he revise his return of income? What if he discovered the omission on 15.1.2024?

■ Due date to file return u/s 139(1) is 31.7.2023. Hence, return filed on 25.9.2023 is a belated return u/s 139(4) which can be revised before 3 months prior to the end of AY 2023-24 (i.e., 31.12.2023) or completion of assessment, whichever is earlier, since Mr. Jain has discovered an omission in the return. However, he cannot furnish revised return on 15.1.2024, being the date beyond 31.12.2023.

**B25. REVISED RETURN – CA2020(NOV)** - Mr. Mukesh, born on 1.4.1963, furnished his original return for AY 2023-24 on 30.7.2023. He has shown salary income of Rs. 7.3 lakh (computed) and interest from his savings bank of Rs. 12,700 and from his fixed deposits of Rs. 43,000. He also claimed deduction u/s 80C of Rs. 1.5 lakh. He had claimed deduction u/s 80D of Rs. 25,000. He also claimed deduction u/s 80TTA of Rs. 10,000. His employer had deducted TDS of Rs. 33,950 from his salary, which he adjusted fully against tax payable.

He paid health insurance premium of Rs. 38,000 by account payee cheque for self and wife. He paid Rs. 1,500 in cash for his health checkup and Rs. 4,000 by cheque for preventive health checkup of his parents. He also paid medical insurance premium of Rs. 33,000 during the year to insure the health of his mother, aged 80 years, staying with his younger brother. He further incurred medical expenditure of Rs. 25,000 on his father, aged 81 years, who is staying with him. His father is not covered under any mediclaim policy. He seeks your advice about possibility of revising his return and if possible file his revised return. Analyze the above narrated facts as per applicable provisions. Does he need to revise his return and for what reasons? Please advise him suitably and, if needed, recompute his income and tax payable or refund due for AY 2023-24.

■ As Mukesh is born on 1.4.1963, he will be said to have completed 60 years of age on 31.3.2023 as per Circular 28/2016 (see para 13 of Concepts Book). Hence, he will be a senior citizen. Since he has claimed deduction u/s 80TTA and not u/s 80TTB, it is assumed that he computed his tax liability considering that he is not a senior citizen for PY 2022-23. Tax will be recomputed considering that he is a senior citizen.

Particulars	Income declared	Recomputed income
Income from salaries	7,30,000	7,30,000
Income from other sources:		
• Interest from savings bank	12,700	12,700
• Interest from fixed deposits	43,000	43,000
<b>Gross total income</b>	<b>7,85,700</b>	<b>7,85,700</b>
Less: Deduction u/s VIA:		
U/s 80C	(1,50,000)	(1,50,000)
U/s 80D:	(25,000)	
Self and spouse: Premium 38,000 + health checkup 1,500 = Rs. 39,500, allowed up to Rs. 50,000 since Mukesh is a senior citizen (assuming he is a resident)		(39,500)
Parents: Health checkup 3,500 (5,000 limit – 1,500 used above) + premium for mother 33,000 + medical expenditure for father 25,000 = Rs. 61,500, allowed up to Rs. 50,000		(50,000)
U/s 80TTA	(10,000)	-
U/s 80TTB	-	(50,000)
<b>Total income</b>	<b>6,00,700</b>	<b>4,96,200</b>
Tax on total income	32,640	9,810
Less: Rebate u/s 87A	-	(9,810)
	32,640	Nil
Add: HEC @ 4%	1,306	Nil
	33,946	Nil
Less: TDS deducted from salary	(33,950)	(33,950)
<b>Refund due (rounded off)</b>	<b>Nil</b>	<b>(33,950)</b>

Since omissions have been discovered in the original return, Mr. Mukesh can file revised return u/s 139(5) before the earlier of 31.12.2023 or completion of assessment, and claim refund of Rs. 33,950.

**B25a. PRESCRIBED PARTICULARS – CA2021(DEC)** – Mr. Sitaram is engaged in the business of trading of cement having turnover of Rs. 11 crores during the FY 2022-23. As a tax consultant advise him what are the particulars to be furnished under section 139(6A) along with Return of Income?

■ Since the turnover from business is > 10 crores, Mr. Sitaram is liable to tax audit u/s 44AB. Hence, he is required to furnish the following particulars along with his return of income, by virtue of section 139(6A):

1. The tax audit report u/s 44AB (or a copy of such report together with proof of furnishing the report, where the report has been furnished prior to the furnishing of the return);
2. The particulars of the location and style of the principal place where he carries on the business and all the branches thereof.

**B25b-h. UPDATED RETURN** - Determine whether updated return can be furnished in the following situations:

1. Gaurav, a non-resident, missed to furnish his return of income for the AY 2021-22. He wishes to furnish the return of income on 1.4.2024.
2. Mr. Y, of age 55 years, furnished return for AY 2022-23 on 10.8.2022 declaring total income of Rs. 7 lakh and tax liability of Rs. 54,600. He claimed a refund of Rs. 2,000 after adjusting prepaid taxes of Rs. 56,600. He wants to furnish an updated return on 15.2.2025 declaring additional income of Rs. 1 lakh and prepaid taxes of Rs. 45,400 which he missed to declare earlier.
3. BCD & Co furnished its return for AY 2021-22 on the due date declaring business loss of Rs. 20 lakh which was carried forward and set off in AY 2022-23 to the extent of Rs. 15 lakh and AY 2023-24 to the extent of Rs. 5 lakh. It wants to furnish updated return for AY 2021-22 and declare additional business income of Rs. 30 lakh.
4. ABC LLP furnished a belated return for AY 2021-22 on 7.10.2021 declaring a total income of Rs. 16 lakh and tax liability of Rs. 4,99,200. It wants to furnish an updated return on 10.9.2023 reducing the total income to Rs. 10 lakh and tax liability to Rs. 3,12,000.
5. Mrs. K failed to furnish her return for AY 2021-22. She furnished the updated return for such AY on 9.10.2023. Realizing that she has missed to report an income of Rs. 5 lakh, she wants to again furnish an updated return on 15.12.2023.
6. Ms. B furnished her return for AY 2021-22 on 31.7.2021 claiming a refund of Rs. 10,000 after adjusting prepaid taxes. She wants to furnish an updated return on 15.3.2024 resulting in a net tax payable of Rs. 5,000. Assessment proceedings in her case for AY 2021-22 were completed on 10.3.2024.
7. CK Ltd. failed to furnish its return for AY 2022-23. It wants to furnish an updated return for the said AY on 20.12.2024 declaring a loss of Rs. 20 lakh to be carried forward to AY 2023-24.

- 
1. Gaurav can furnish updated return whether or not he has furnished an earlier return. Updated return can be furnished within 24 months from the end of AY 2021-22, i.e., till 31.3.2024. Hence, he cannot furnish updated return on 1.4.2024.
  2. Tax refundable as per updated return = Tax liability on Rs. 8 lakh of Rs. 75,400 – Prepaid taxes of Rs. 1,00,000 = Rs. 24,600. Provisions of updated return do not apply since updated return increases the refund due.
  3. Updated return can be furnished for AY 2021-22 as per which the total income will be computed at Rs. 10 lakh and there will be no loss to be carried forward. Thus, updated return will need to be furnished for AY 2022-23 and AY 2023-24 as well.
  4. Provisions of updated return do not apply where the updated return has the effect of decreasing the total tax liability as per the earlier return.
  5. Updated return cannot be furnished where an updated return has been furnished.
  6. Updated return cannot be furnished since assessment proceedings have been completed for the relevant AY.
  7. Provisions of updated return do not apply where the updated return is a return of loss.

**B26. DEFECTIVE RETURN – CA2019(NOV)** – Elaborate the conditions, non-fulfillment of which would render a return of income filed by an assessee not maintaining regular books of accounts, defective. – Refer para 236 of Concepts Book

**B26a. DEFECTIVE RETURN – CA2022(MAY)** – Due to some inconsistent information provided in the return of income furnished u/s 139(1), the Assessing Officer considers it defective u/s 139(9) of the Income-tax Act, 1961.

1. How, the Assessing Officer would deal with the issue?
2. What are the consequences if defect is not rectified within the time allowed?
3. Specify the remedies available if not rectified within time allowed by the Assessing Officer?

- 
1. See 'Rectification of defect' in para 236 of Concepts Book
  2. See 'Failure to rectify' in para 236 of Concepts Book
  3. See 'Late rectification' in para 236 of Concepts Book

**B27-29. VERIFICATION – CA2017(MAY)** – By whom should the return of income be signed in the case of following persons: 1. Political party. 2. Company which is being wound up. 3. HUF, when Karta is unable to sign. 4. Scientific research association.

■ 1: CEO of the party. 2: The liquidator. 3: Any other adult member of HUF. 4: Any member or principal officer of the association.

**B30. VERIFICATION – CA2016(NOV)** – Specify the persons who are authorized to verify u/s 140, the return of income filed u/s 139 in case of a company. – Refer para 237 of Concepts Book



**B31. VERIFICATION – CA2015(NOV), 2012(NOV)** – Who are the persons authorized to verify return of income in the case of individual u/s 140? – Refer para 237 of Concepts Book

**B32. VERIFICATION – CA2014(MAY)** – Where the Karta of an HUF is absent from India, the return of income can be signed by any male member of the family. Give reasoning for the statement to be true or false.

■ False. Return should be signed by any other adult member (male or female) of the HUF.

**B33. VERIFICATION – CA2011(MAY)** – Specify the persons who are authorized to sign and verify u/s 140, the return of income filed u/s 139, in the case of political party, local authority, association of persons and LLP. – Refer para 237 of Concepts Book

**B34. VERIFICATION – CA2011(NOV)** – State with reasons whether you agree or disagree with the following statement: Return of income of LLP could be signed by any partner.

■ False. Return of income should be signed by the designated partner OR by any partner or any other person as may be prescribed (Interim resolution professional, resolution professional or liquidator, as the case may be, appointed under the Insolvency and Bankruptcy Code, 2016) where there is no designated partner or he is unable to verify the return for any unavoidable reason.

**B35-37. PAN/AADHAAR – CA2018(MAY)** – State whether quoting of PAN in the following transactions is mandatory or not:

1. Mr. A makes cash payment to hotel Radisson Blu, Ahmedabad, of Rs. 50,000 against the bill raised by the hotel.
2. Mr. Abhishek, in a single transaction, makes contract of Rs. 1,20,000 for sale/purchase of securities (other than shares) as defined in section 2(h) of Securities Contracts (Regulation) Act, 1956.
3. Payment to Mutual Fund of Rs. 70,000 for purchase of its units.

■ 1: No, since payment in cash against a bill at any one time is not > 50,000; 2: Yes, since amount is > 1 lakh for the transaction; 3: Yes, since amount is > 50,000. *Mistake by students – Not aware of monetary limits.*

**B38-45. PAN/AADHAAR – CA2018(MAY)** – Pertaining to the following transactions, what is the minimum amount above which quoting of PAN is mandatory?

Transaction
1. Sale or purchase of car
2. Payment to a hotel or restaurant against a bill or bills at any one time
3. Payment in connection with travel to any foreign country
4. Payment to RBI for acquiring bonds issued by it
5. A time deposit with a Post Office
6. Payment as life insurance premium to an insurer
7. Sale or purchase of shares of a company not listed in a recognized stock exchange
8. Sale or purchase of any immovable property

■ 1: No threshold; 2: Payment in cash of an amount > 50,000; 3: Payment in cash of an amount > 50,000; 4: Amount > 50,000; 5: Amount > 50,000 OR aggregating to > 5 lakh during a FY; 6: Amount aggregating to > 50,000 in a FY; 7: Amount > 1 lakh per transaction; 8: Amount > 10 lakh OR SDV > 10 lakh

**B46. PAN/AADHAAR – CA2018(MAY)** – Briefly mention the provisions with regard to quoting Aadhaar number u/s 139AA. – Refer para 239.2 of Concepts Book

**B47. PAN/AADHAAR – CA2019(MAY)** – (1) Discuss the provisions of section 139A(1) which provides the persons who are compulsorily required to apply for allotment of PAN to the AO. (2) To whom the provisions of section 139AA relating to quoting of Aadhaar number do not apply? – Refer para 239 of Concepts Book

**B48. PAN/AADHAAR – CA2021(JULY)** – Briefly explain the provisions of section 139A with regard to the persons who are required to apply for PAN.

■ Refer para 239.1-1 of Concepts Book. *Mistake by students – Could not list persons required to apply for PAN.*

**B49. CONSEQUENCES OF LATE FILING – CA2021(DEC)** – Mr. Kailash, a resident and ordinarily resident in India, could not file his return of Income for the AY 2023-24 before due date prescribed u/s 139(1). Advise Mr. Kailash as a tax consultant. What are the consequences for non-filing of return of Income within the due date u/s 139(1)? – Refer para 240 of Concepts Book

**B49A. CONSEQUENCES OF LATE FILING – CA2018(NOV)** – What are the consequences of non filing of return within the due date u/s 139(1)? – Refer para 240 of Concepts Book

**B50. 234F – CA2021(JAN), 2019(MAY), 2018(NOV), 2018(MAY)** – What is the fee for default in furnishing return of income u/s 234F? – Refer para 240.2 of Concepts Book

**B51. SELF ASSESSMENT – CA2018(MAY)** – Briefly mention the concept of self assessment tax u/s 140A and its components. – Refer para 241 of Concepts Book

## MCQ

**M1.** Who, of the following, is compulsorily required to file return of income?

- |  |  |
|--|--|
| (a) Individual whose gross total income, before capital gain exemption u/s 54 to 54GB, does not exceed the basic exemption limit | (b) Company whose total income is a loss   |
| (c) Individual, who does not have any source of income, but has spent Rs. 1.5 lakh on foreign travel during the PY               | (d) A resident but not ordinarily resident individual having a signing authority in a bank account located in Brazil |

**M2.** Who, of the following, is not compulsorily required to file return of income?

- |  |   |
|--|---|
| (a) Resident individual, age 55 years, having income from salary and interest, gross total income of Rs. 3 lakh and deduction u/s 80C of Rs. 1.5 lakh. | (b) Partnership firm whose gross total income, before deduction under Chapter VIA of Rs. 3 lakh, is Rs. 3 lakh  |
| (c) Resident individual, age 65 years, having total income of Rs. 0.75 lakh, after deduction u/s 54EC of Rs. 1 lakh and u/s 80C of Rs. 1 lakh.         | (d) Resident individual, age 35 years, who has income from salary of Rs. 2 lakh (computed) and deduction u/s 80C of Rs. 1 lakh and has paid electricity bills of Rs. 1.5 lakh during the PY |

**M3.** Raju, a resident of age 60 years, computed his salary income for the PY 2022-23 of Rs. 2 lakh after claiming exemption of Rs. 1 lakh u/s 10(10) on account of gratuity received from the employer. He also computed long term capital gain of Rs. Nil after claiming exemption of Rs. 1 lakh u/s 54. He further claimed deduction u/s 80C of Rs. 1,50,000. Is he required to file return of income for AY 2023-24?

- |                               |                              |
|-------------------------------|------------------------------|
| (a) Yes                       | (b) No                       |
| (c) At the discretion of Raju | (d) AO is required to decide |

**M4.** Saurabh, a resident of age 30 years, having income from business, computed his total income of Rs. 1.5 lakh after claiming exemption u/s 80G of Rs. 1 lakh. During the year, he deposited a total of Rs. 75 lakh in the current account with SBI, paid electricity bills of Rs. 1.25 lakh and spent Rs. 1.75 lakh on travel to Sri Lanka. Is he required to file his return of income for AY 2023-24?

- |                                  |                              |
|----------------------------------|------------------------------|
| (a) Yes                          | (b) No                       |
| (c) At the discretion of Saurabh | (d) AO is required to decide |

**M5.** Mrs. J, a resident aged 70 years, does not have a regular source of income. During the PY 2022-23, she sold her agricultural land situated in a rural area for Rs. 40 lakh which she had acquired for Rs. 10 lakh ten years before. Out of this money, she spent Rs. 1,90,000 on travel to Mauritius, Rs. 3,00,000 on travel to Kerala and Rs. 5,00,000 to purchase a plot of land in Chennai. Is Mrs. J required to file return of income for AY 2023-24?

- |                              |                                 |
|------------------------------|---------------------------------|
| (a) Yes                      | (b) No                          |
| (c) AO is required to decide | (d) At the discretion of Mrs. J |

**M5a.** Mr. Y, a resident and ordinarily resident of age 75 years, is a retired employee drawing a monthly pension of Rs. 10,000. He stays in his own house in Mumbai. He has no other source of income. His son, living in Canada and owning a house there, died in a cyclone on 10.12.2022 thereby leaving his house in the name of Mr. Y. Is Mr. Y required to file return of income for AY 2023-24?

- |                              |                                |
|------------------------------|--------------------------------|
| (a) Yes                      | (b) No                         |
| (c) AO is required to decide | (d) At the discretion of Mr. Y |

**M6.** Rajesh, a resident aged 35 years, is a partner in a firm whose business turnover for the PY 2022-23 is Rs. 75 lakh. During the year, he received share of profit from the firm of Rs. 3 lakh and salary from the firm of Rs. 3 lakh (which was deductible in the hands of the firm). He deposited Rs. 1.5 lakh in his PPF account. He has no other source of income. Advise Rajesh on whether he needs to file return of income for AY 2023-24 and the due date.

- |  |  |
|--|--|
| (a) Not required to file return                  | (b) Required to file return; due date 31.7.2023  |
| (c) Required to file return; due date 31.10.2023 | (d) Required to file return; due date 30.11.2023 |

**M7.** What is the due date to file return for a company which has total income being a loss and is, thus, not required to undertake tax audit u/s 44AB?

- |                 |                                 |
|-----------------|---------------------------------|
| (a) 31 July     | (b) 31 October                  |
| (c) 30 November | (d) Not required to file return |

**M8.** Hiren, a resident aged 30 years, is a Chartered Accountant in practice. Gross receipts for PY 2022-23 were Rs. 60 lakh. Business income was computed at Rs. 3 lakh and Rs. 1 lakh was the income from other sources. He claimed deduction of Rs. 1.5 lakh u/s 80C. Is Hiren required to file his return for AY 2023-24 and if so, what is the due date?

- (a) Not required to file return (b) Required to file return; due date 31.7.2023  
(c) Required to file return; due date 31.10.2023 (d) Required to file return; due date 30.11.2023

**M9.** Suhani, a resident and ordinarily resident, is a shareholder in BCD Ltd. During the PY 2022-23, BCD Ltd. entered into international transactions in respect of which it is required to furnish Transfer Pricing report u/s 92E. Total income of Suhani, after claiming deduction under Chapter VIA of Rs. 1 lakh, is Rs. 1 lakh. She is an authorized signatory for a bank account in the UK. Is she required to file her return and if so, what is the due date?

- (a) Not required to file return (b) Required to file return; due date 31.7.2023  
(c) Required to file return; due date 31.10.2023 (d) Required to file return; due date 30.11.2023

**M10.** Rupesh, a resident aged 61 years, is a sleeping partner in a partnership firm having business turnover of Rs. 2 crore for the PY 2022-23. All the transactions carried out by the firm were online mode. His only income during the year was taxable salary from the firm of Rs. 2.5 lakh. His son took him for a vacation to Maldives on which his son spent Rs. 3 lakh. Is Rupesh required to file his return and if so, what is the due date?

- (a) Not required to file return (b) Required to file return; due date 31.7.2023  
(c) Required to file return; due date 31.10.2023 (d) Required to file return; due date 30.11.2023

**M11.** Sushil is the proprietor of a business whose annual turnover for PY 2022-23 is Rs. 3 crore. As per the records, a total of 1% of receipts and 2% of payments were made by way of cash or cheque/bank-draft which were not account payee, and he deposited Rs. 1.5 crore during the year in the current account maintained in Bank of India. His particulars of income are as follows: Business loss Rs. 3 lakh; income from house property Rs. 5 lakh; deduction u/s 80C Rs. 1 lakh. Is he required to file his return and if so, what is the due date?

- (a) Not required to file return (b) Required to file return; due date 31.7.2023  
(c) Required to file return; due date 31.10.2023 (d) Required to file return; due date 30.11.2023

**M12.** Mr. Y, a resident, earned income from rent and interest on savings bank account. His gross total income for the PY 2022-23 was Rs. 2,15,000. His daughter went on a study tour to the USA for which Mr. Y spent Rs. 2 lakh. Is he required to file his return for AY 2023-24 and if so, what is the due date?

- (a) Not required to file return (b) Required to file return; due date 31.7.2023  
(c) Required to file return; due date 31.10.2023 (d) Required to file return; due date 30.11.2023

**M12a.** Mrs. C, a resident of age 68 years, is a retired professor. During the PY 2022-23, she received dividend of Rs. 1,35,000 from BCD Pvt. Ltd., an Indian company, and interest of Rs. 80,000 on debentures of XYZ Ltd. She also received Rs. 10,00,000 on maturity of her PPF Account and Rs. 1,00,000 out of the income of HUF of which she is a member. All the amounts were received by cheque which were deposited in her savings bank account on which she received interest of Rs. 40,000. She did not furnish her PAN number to XYZ Ltd. Is Mrs. C required to file her return of income for AY 2023-24 and if so, what is the due date?

- (a) Not required to file return (b) Required to file return; due date 31.7.2023  
(c) Required to file return; due date 31.10.2023 (d) Required to file return; due date 30.11.2023

**M13.** Mr. X computed his gross total income for PY 2022-23 at Rs. 2,10,000. His expenditure on electricity bills during the year was Rs. 1,30,000. He also deposited Rs. 60,000 in his PPF account. Which of the following statements is correct?

- (a) Not required to file return since total income, before deduction u/s 80C, does not exceed basic exemption limit (b) Not required to file return since expenditure on electricity during the PY does not exceed Rs. 2 lakh  
(c) Not required to file return since total income, before deduction u/s 80C, does not exceed basic exemption limit and expenditure on electricity during the PY does not exceed Rs. 2 lakh (d) Required to file return since expenditure on electricity during the PY exceeds Rs. 1 lakh

**M13a.** Mrs. M, a resident having date of birth 1.4.1943, computed her gross total income for the AY 2023-24 at Rs. 4,75,000. She has not claimed any deduction under Chapter VIA. She does not have any capital gain. She has paid electricity bills of Rs. 9,000 p.m. during the PY 2022-23. She travelled to the UK during September 2022 along with her spouse for which he spent Rs. 1.5 lakh on return airfare. Her daughter, staying in UK, met the expenses of Rs. 35,000 toward sightseeing and stay. Determine whether Mrs. M is required to furnish her return of income and if so, what is the due date?

- (a) Not required to file return (b) Required to file return; due date 31.7.2023  
(c) Required to file return; due date 31.10.2023 (d) Required to file return; due date 30.11.2023

**M14.** Rakhi has brought forward short term capital loss of Rs. 1 lakh pertaining to AY 2022-23. For the AY 2023-24, she has business loss of Rs. 2.5 lakh, income from house property of Rs. 1 lakh and salary income of Rs. 10 lakh. She filed return of income on 15.8.2022 (due date 31.7.2022). Which of the following is true?

- (a) Short term capital loss cannot be carried forward to AY 2023-24
- (b) Business loss of 1 lakh can be set off against IHP and balance of Rs. 1.5 lakh can be carried forward to AY 2024-25
- (c) Business loss of 1 lakh can be set off against IHP but balance of Rs. 1.5 lakh cannot be carried forward to AY 2024-25
- (d) Business loss of Rs. 2.5 lakh can neither be set off nor carried forward

**M15.** Which of the following loss incurred in PY 2022-23, remaining unabsorbed, can be carried forward to PY 2023-24 even if return is filed beyond the due date u/s 139(1) for PY 2022-23?

- (a) House property loss and unabsorbed depreciation
- (b) Business loss and capital loss (short term or long term)
- (c) Business loss and unabsorbed depreciation
- (d) House property loss and capital loss (short term or long term)

**M16.** Gauri filed her return for AY 2023-24 on 10.1.2024 against the due date of 31.10.2023. Assessment was completed on 10.10.2024. Which of the following is correct?

- (a) Return is valid since it is filed before completion of assessment
- (b) Return is not valid since it is filed after 31.12.2023
- (c) Return is valid since it can be filed at any time
- (d) Return is not valid since it cannot be filed after due date

**M17.** Surabhi filed her return on 1.8.2023 as against the due date of 31.7.2023, declaring a total income of Rs. 5 lakh. She revised the return on 15.12.2023 showing a total income of Rs. 4 lakh and again revised the return on 15.1.2024 showing a total income of Rs. 3 lakh. Assessment was completed on 31.3.2024. What is the total income that will be considered as having been declared by her in her return?

- (a) 5 lakh
- (b) 4 lakh
- (c) 3 lakh
- (d) AO will determine under best judgment assessment

**M18.** Shovik filed his return on 5.11.2023, as against the due date of 31.10.2023, declaring a total income of Rs. 10 lakh. He revised his return on 15.12.2023 in which he set off business loss of the current year, thereby reducing his total income to Rs. 8 lakh. Assessment was completed on 10.5.2024. What is the total income that will be considered as having been declared by him?

- (a) 10 lakh
- (b) 8 lakh
- (c) Nil
- (d) AO will determine under best judgment assessment

**M19.** Sonu filed his return on 25.7.2023 (due date 31.7.2023) declaring a total income of Rs. 6 lakh and long term capital loss of current year to be carried forward of Rs. 1 lakh. Return was processed on 30.9.2023. He revised his return on 10.12.2023 reducing his total income to Rs. 5 lakh and enhancing the long term capital loss to Rs. 1.5 lakh. Assessment was completed on 15.6.2024. What is the total income that will be considered as having been declared by him and loss that will be allowed to be carried forward?

- (a) Total income of 6 lakh; loss carried forward 1 lakh
- (b) Total income of 5 lakh; loss carried forward Nil
- (c) Total income of 5 lakh; loss carried forward 1 lakh
- (d) Total income of 5 lakh; loss carried forward 1.5 lakh

**M19a.** Mrs. V earned a total income of Rs. 6 lakh for the AY 2022-23 but she forgot to furnish the return of income. She realized her mistake on 1.1.2023 and now wants to furnish the return of income immediately. The assessment proceedings have not been initiated yet. Which of the following option is available to her under the law?

- (a) Furnish belated return of income
- (b) Furnish revised return of income
- (c) Furnish updated return of income
- (d) Cannot furnish the return of income

**M19b.** Mr. J furnished his return for the AY 2021-22 on the due date of 31.7.2021 declaring a total income of Rs. 6 lakh and tax liability of Rs. 33,800. He furnished a revised return on 15.9.2021 reducing the total income to Rs. 5.5 lakh and tax liability to Rs. 23,400. He again furnished an updated return on 20.3.2023 modifying the total income to Rs. 5.75 lakh and tax liability to Rs. 28,600. What is the amount of tax liability will be considered as valid in his case?

- (a) 33,800
- (b) 23,400
- (c) 28,600
- (d) AO will need to assess

**M20.** Mona filed her return on 31.7.2023 (due date 31.7.2023) declaring a total income of Rs. 3 lakh and current year house property loss to be carried forward of Rs. 1 lakh. She received a notice from the AO stating that the return was defective and she should file a rectified return on or before 15.9.2023. She failed to file the rectified return. Later, she filed another return on 15.12.2023 enhancing the house property loss to be carried forward to Rs. 1.5 lakh. Which of the following is true?

- (a) Both returns are invalid; best judgment assessment will be done; loss will not be carried forward
- (b) Second return is valid; total income will be 3 lakh; loss of 1 lakh will be carried forward

- (c) Second return is valid; total income will be 3 lakh; loss of 1.5 lakh will be carried forward (d) Second return is valid; total income will be 3 lakh; loss will not be carried forward
- M21.** A defective return is not automatically invalid. It becomes invalid only if the assessee fails to rectify the defect in terms of section 139(9).  
 (a) True (b) False
- M22.** Which of the following return is valid?  
 (a) Return of Mr. B, verified by his spouse without a power of attorney for this purpose (b) Return of Harish HUF signed by Madhav, member of HUF aged 20 years. Harish, the Karta is in India and is of sound mind at the time of furnishing of return.  
 (c) Return of MNP Pvt. Ltd., being wound up, signed by its Managing Director (d) Return of M & N partnership firm, verified by Mr. M, its managing partner
- M23.** Which of the following return is invalid?  
 (a) Return of Shah & Shah, partnership firm, signed by Mr. P, its partner, aged 25 years. The firm does not have a managing partner. (b) Return of J&K LLP, signed by its auditor  
 (c) Return of BJD, a political party, signed by Mr. B, Secretary, who is also its CEO (d) Return of a social research association, signed by one of its members
- M24.** Rohit is a resident, being a professional having gross receipts of Rs. 60 lakh during the PY 2022-23. He wants to furnish his return for such PY through Shailesh, his friend, who is a TRP. Is this permissible?  
 (a) No (b) Yes  
 (c) At his discretion (d) As the AO may direct
- M25.** Zeeshan is a resident and a sole proprietor of a business having turnover of Rs. 2.5 crore for the PY 2022-23. All his transactions are carried out by way of online receipts and payments. He wants to use the services of a TRP to furnish his return for AY 2023-24. Is this permissible?  
 (a) No (b) Yes
- M26.** Saumil, aged 20 years, started earning salary during PY 2022-23 and his total income for PY 2022-23 is Rs. 4 lakh. There is no other source of income. He does not have a PAN. Is he required to apply for PAN?  
 (a) No, since tax liability is Nil after claiming rebate u/s 87A (b) Yes, latest by 31.3.2023  
 (c) Yes, latest by 31.5.2023 (d) Yes, latest by 31.3.2024
- M27.** Monu started a business during PY 2021-22, turnover of which was Rs. 4 lakh for PY 2021-22 and is likely to be Rs. 6 lakh for PY 2022-23. Monu also estimates his total income to be Rs. 1 lakh for PY 2022-23 (it was Nil for PY 2021-22). The business is his only source of income. He does not have a PAN. Is he required to apply for PAN?  
 (a) No, since tax liability is Nil (b) Yes, latest by 31.3.2023  
 (c) Yes, should have applied by 31.3.2022 (d) Yes, latest by 31.5.2023
- M28.** Dev HUF has had total income of less than Rs. 1 lakh so far in every year and it does not carry any business. It does not have a PAN. It entered into a financial transaction of an amount aggregating to Rs. 3 lakh during the PY 2022-23. Control and management of the HUF is exercised wholly from Germany. Who is required to apply for PAN?  
 (a) None (b) Dev HUF  
 (c) All members of HUF (d) Both Dev HUF and Dev, the Karta
- M29.** PAN is required to be quoted by Mr. D in the documents pertaining to which of the following transactions undertaken by him during PY 2022-23?  
 (a) Purchase of bicycle for Rs. 10,000 (b) Opening current account with Dena Bank  
 (c) Payment of restaurant bill of Rs. 60,000 by credit card (d) Cash payment of bill for stay in hotel of Rs. 40,000
- M30.** PAN is not required to be quoted by Mr. C in the documents pertaining to which of the following transactions undertaken by him during PY 2022-23?  
 (a) Cash payment of Rs. 60,000 to a travel agent for a trip to Goa (b) Payment of Rs. 1 lakh to Barclays Mutual Fund for purchase of mutual fund units  
 (c) Cash deposit of Rs. 70,000 in Bank of Baroda on 1.10.2022 (d) Application to HSBC Bank for issue of credit card
- M31.** PAN is required to be quoted by Mr. G in the documents pertaining to which of the following transactions undertaken by him during PY 2022-23?

- (a) 10 fixed deposits of Rs. 40,000 each opened in Punjab National Bank  
 (b) Life insurance premium of Rs. 55,000 paid to LIC by cheque  
 (c) Sale of shares in BKC Pvt. Ltd. for Rs. 75,000 on 1.1.2023  
 (d) Sale of vacant plot of land for Rs. 9 lakh (SDV Rs. 10 lakh)

**M32.** Saloni, having a PAN number as well as Aadhaar number, intimated her Aadhaar number to the income tax department on 10.4.2023. She purchased a car on 1.4.2023 and applied for a credit card on 20.4.2023 and quoted her PAN on the documents pertaining to these transactions. Which of the following is correct?

- (a) She will be considered as having complied with all provisions of PAN but will need to pay fee of Rs. 500 while intimating Aadhaar number  
 (b) She will be considered as not having quoted PAN with respect to purchase of car and application for credit card and will need to pay fee of Rs. 1,000 while intimating Aadhaar number  
 (c) She will be considered as not having quoted PAN with respect to purchase of car and will need to pay fee of Rs. 1,000 while intimating Aadhaar number  
 (d) She will be considered as not having quoted PAN with respect to application for credit card but will not need to pay any fee while intimating Aadhaar number

**M33.** If the person is eligible to obtain Aadhaar number, he should quote his Aadhaar number in his return of income, unless he is exempted from doing so.

- (a) True (b) False

**M34.** Bobby, a businessman, filed his return of income on 15.9.2023 as against the due date of 31.7.2023, claiming deduction u/s 80JJAA as well as carry forward of unabsorbed current year's business loss of Rs. 1 lakh to the next year. What are the consequences that he is not likely to face?

- (a) Deduction u/s 80JJAA will not be allowed (b) Interest u/s 234A and fee u/s 234F  
 (c) Carry forward of business loss will not be allowed (d) Best judgment assessment u/s 144

**M35.** Mr. Q did not file his return for AY 2023-24 and tax on his total income was determined at Rs. 45,620 on the basis of best judgment assessment u/s 144 which was completed on 15.4.2024. Due date of filing return was 31.7.2023. He had paid advance tax of Rs. 12,000 and TDS deducted during FY 2022-23 was Rs. 12,650. Determine interest u/s 234A that Mr. Q will have to pay.

- (a) Rs. 1,887 (b) Rs. 1,672  
 (c) Rs. 1,881 (d) Rs. 1,543

**M36.** Gokul furnished his return for AY 2023-24 on 15.10.2023 as against the due date of 31.7.2023. He paid the entire self-assessment tax due of Rs. 1 lakh on 25.7.2023. Compute the interest u/s 234A.

- (a) Rs. 3,000 (b) Rs. 2,000  
 (c) Rs. 1,000 (d) Nil

**M37.** Yasmin, having a total income of Rs. 6 lakh, furnished her return for AY 2023-24 on 31.12.2023. She will need to pay a fee of:

- (a) 1,000 (b) 5,000  
 (c) 10,000 (d) Nil

**M38.** Yasmin computed her total income for PY 2022-23 of Rs. 4 lakh and filed her return of income on 15.12.2023 (due date being 31.7.2023). She is engaged in the business of growing and manufacturing of tea in India. Compute the fee payable by her for default in furnishing return of income for AY 2023-24?

- (a) 1,000 (b) 5,000  
 (c) 10,000 (d) Nil as total income is < 5 lakh

**M39.** Mr. Z declared tax on his total income for AY 2023-24 of Rs. 54,600 and furnished a belated return. He had paid advance tax of Rs. 12,000. TDS was deducted for Rs. 7,500 and he claimed relief u/s 89 of Rs. 1,400. Interest u/s 234A, 234B and 234C cumulatively amounted to Rs. 2,500 and fee u/s 234 was Rs. 5,000. He paid Rs. 30,000 on self-assessment at the time of filing his return. How much amount will still remain payable by Mr. Z?

- (a) 2,500 of interest; 8,700 of tax (b) 5,000 of fee; 2,500 of interest; 3,700 of tax  
 (c) 5,000 of fee; 6,200 of tax (d) 11,200 of tax

**M40.** Mr. Gupta furnished a belated return for AY 2022-23 on 15.10.2022 and paid the entire self-assessment tax of Rs. 25,000 on this date. Later on, realizing that he had forgot to declare an income of Rs. 3 lakh, he furnished the updated return on 15.10.2023. Which of the following does Mr. Gupta need to pay at the time of furnishing the updated return?

- (a) Additional tax u/s 140B (b) Interest u/s 234A  
 (c) Fee u/s 234F (d) All of these

**M41.** Shivani furnished the return of income for AY 2021-22 on the due date of 31.7.2021. Realizing that she had forgot to declare income from house property, she furnished the updated return of income for the said AY on 10.3.2024. The tax payable on the basis of the updated return was Rs. 40,000 and interest u/s 234B and u/s 234C was determined at Rs. 2,000 and Rs. 1,500, respectively. Determine the amount of additional tax u/s 140B that Shivani needs to pay at the time of furnishing the updated return.

- |            |            |
|------------|------------|
| (a) 10,875 | (b) 20,000 |
| (c) 21,750 | (d) 1,750  |

## Answer Key for MCQs

M1 B; M2 C; M3 B; M4 A; M5 B; M5a A; M6 B; M7 B; M8 C; M9 B; M10 A; M11 B; M12 A; M12a A; M13 D; M13a B; M14 C; M15 A; M16 B; M17 B; M18 B; M19 D; M19a C; M19b C; M20 C; M21 A; M22 D; M23 B; M24 A; M25 B; M26 C; M27 B; M28 A; M29 B; M30 A; M31 B; M32 C; M33 A; M34 D; M35 C; M36 D; M37 B; M38 A; M39 D; M40 A; M41 C

## Hints to MCQ answers

- M1.** A. No, as total income, before deduction under Chapter VIA and capital gain exemption, is not > BEL. B. Yes, as it is a company. C. No, as expenditure on foreign travel is not > 2 lakh. D. No, as the person is a RNOR.
- M2.** A. Yes, as total income, before deduction under Chapter VIA, of 3 lakh is > BEL of 2.5 lakh. B. Yes, as it is a partnership firm. C. No, as total income, before exemption u/s 54EC and deduction under Chapter VIA, of 2.75 lakh is not > BEL of 3 lakh. D. Yes, as although the total income, before deduction under Chapter VIA, of 2 lakh is not > BEL of 2.5 lakh, but expenditure on consumption of electricity during the PY is > 1 lakh.
- M3.** No, as total income, before exemption u/s 54 and deduction u/s 80C, of 3 lakh (2 lakh salary + 1 lakh LTCG) is not > BEL of 3 lakh.
- M4.** Yes, as although the total income, before deduction u/s 80G, of 2.5 lakh is not > BEL of 2.5 lakh, deposit in current account is not > 1 crore and expenditure on foreign travel is not > 2 lakh, but expenditure on electricity consumption is > 1 lakh.
- M5.** Capital gain does not arise on transfer of rural agricultural land. Total income is Nil. Expenditure on foreign travel is not > 2 lakh. Hence, not required to furnish ROI.
- M5a.** Yes, as although the total income is not > BEL of 3 lakh, he is a resident (not being a RNOR) and holds an asset located outside India at any time during the PY.
- M6.** Share of profit from the firm is exempt. Total income, before deduction u/s 80C, of 3 lakh is > BEL of 2.5 lakh. He needs to file ROI. Tax audit is not required for the firm as its turnover in business is not > 1 crore. Hence, due date for Rajesh is 31 July.
- M7.** Due date to file return for a company, not required to furnish Transfer Pricing Report u/s 92E, is 31 October.
- M8.** Yes, as total income, before deduction u/s 80C, of 4 lakh is > BEL of 2.5 lakh. Hiree is liable to tax audit as gross receipts in profession is > 50 lakh. Hence, due date is 31 October.
- M9.** Yes, since although the total income, before deduction under Chapter VIA, of 2 lakh is not > BEL, but she is a resident (not being RNOR) and has signing authority in an account located outside India. Due date is 31 July. The fact that BCD Ltd. is required to furnish TP report u/s 92E is not relevant for the shareholder.
- M10.** No, as the total income of 2.5 lakh is not > BEL of 3 lakh. Expenditure on foreign travel is not incurred by him.
- M11.** GTI = 2 lakh (5 lakh IHP – 3 lakh business loss). Total income, before deduction u/s 80C, of 2 lakh is not > BEL. But deposit in current account during the PY is > 1 crore and turnover in business during the PY is > 60 lakh. Hence, ROI is to be filed. Receipts in cash mode are not > 5% of total receipts and payments in cash mode are not > 5% of total payments. Hence, threshold for tax audit u/s 44AB is 10 crore. Since turnover in business is not > threshold of 10 crore u/s 44AB, tax audit is not required. Hence, due date is 31 July.
- M12.** No, since total income, before Chapter VIA deduction, of 2.15 lakh is not > BEL and expenditure on foreign travel is not > 2 lakh.
- M12a.** Total income before Chapter VIA deduction = 1,50,000 dividend (gross of TDS @ 10% u/s 194 of 15,000) + 1,00,000 interest on debentures (gross of TDS @ 20% u/s 193 of 20,000; rate of 20% applies u/s 206AA as she did not furnish her PAN) + PPF proceeds NIL as exempt u/s 10 + Sum paid out of income of HUF NIL as exempt u/s 10(2) + 40,000 interest on savings bank account (TDS is not deductible u/s 194A) = 2,90,000. This is not > BEL of 3,00,000. Aggregate of TDS deducted during the PY of 35,000 is < 50,000. Deposits in her savings bank account, in the aggregate is < 50 lakh during the PY. Hence, she is not required to furnish return.
- M13a.** As Mrs. M is born on 1.4.1943, she turns 80 years of age on 31.3.2023. Although the total income of 4.75 lakh is not > BEL of 5 lakh and she has not incurred expenditure on travel to foreign country of > 2 lakh, she has incurred expenditure on consumption of electricity of 1.08 lakh which is > 1 lakh. Hence, she is required to furnish return. Due date is 31 July.
- M14.** Inter-head set off of loss can be done u/s 71 (business loss can be set off against IHP). Short term capital loss brought forward from the earlier year can be carried forward to the next year. Current year unabsorbed business loss of 1.5 lakh cannot be carried forward as return of loss is not filed within time allowed u/s 139(1).
- M16.** Time limit to file a belated return u/s 139(4) is the earlier of 3 months prior to the end of AY or completion of assessment, i.e., 31.12.2023. Return filed is not valid as it is not filed within the time allowed u/s 139(4).
- M17.** Time limit to file a revised return u/s 139(5) is the earlier of 3 months prior to the end of AY or completion of assessment, i.e., 31.12.2023. First revised return is valid as it is filed within the time limit. Second revised return filed after 31.12.2023 is invalid.
- M18.** Time limit to file a revised return u/s 139(5) is the earlier of 3 months prior to the end of AY or completion of assessment, i.e., 31.12.2023. Original return is belated. Belated return can be revised. Inter head set off is permitted in belated return.
- M19.** Return of loss is filed within time allowed u/s 139(1). Revised return is valid as it is filed within the time allowed u/s 139(5). Enhanced loss of 1.5 lakh can be carried forward. Processing of return is not assessment (date of assessment is 15.6.2024, not 30.9.2023).

- M19a.** Belated return cannot be furnished since the time limit u/s 139(4) expired on 31.12.2022. Revised return cannot be furnished since the original return has not been furnished and also the time limit u/s 139(5) expired on 31.12.2022. Updated return can be furnished u/s 139(8A) till 31.3.2025.
- M19b.** Updated return can be furnished till 31.3.2024 even if revised return is furnished. Updated return is valid since it does not decrease the total tax liability determined on the basis of the revised return.
- M20.** Original return is invalid since the defect is not rectified within the time allowed u/s 139(9). Second return is valid but it is a belated return (it is not a revised return since the original return was invalid). However, carry forward of house property loss is possible even for a belated return since the restriction of section 80 does not apply to such loss.
- M22.** A. Spouse does not hold the power of attorney for this purpose. B. Return should be verified by Karta. C. Return should be verified by the liquidator.
- M23.** Auditor is not an authorised person verify the return.
- M24.** Rohit is liable to tax audit as gross receipts in profession is > 50 lakh. Hence, he cannot furnish his return through a TRP.
- M25.** Yes, since he is a resident and not liable to tax audit as the threshold of turnover u/s 44AB is 10 crore in his case.
- M26.** Yes, as total income during the FY of 4 lakh is > BEL of 2.5 lakh. Application needs to be made on or before 31 May of the relevant AY.
- M27.** Yes, as he is carrying on a business whose turnover is likely to exceed 5 lakh in the FY. Application should be made before the end of that FY.
- M28.** HUF is not a resident as control and management of its affairs is situated wholly outside India. It is not required to apply for PAN as total income is not > BEL and it does not carry any business whose turnover is > 5 lakh, even if it enters into a financial transaction of amount > 2.5 lakh in the FY.
- M29.** A. It is not a motor vehicle. B. PAN is to be quoted on opening of current account with bank. C. Payment is not in cash. D. Cash payment is not > 50,000.
- M30.** A. PAN is not to be quoted as trip is not to a foreign country and the amount for purchase of service is not > 2 lakh for the transaction. B. Amount is > 50,000. C. Cash deposit is > 50,000 during any one day. D. Application is for issue of credit card.
- M31.** A. Amount is not > 50,000 and also does not aggregate to > 5 lakh during the FY. B. PAN is to be quoted as amount aggregates to > 50,000 in the FY. C. Amount is not > 1 lakh for the transaction. D. Amount as well as SDV is not > 10 lakh.
- M32.** Saloni failed to intimate Aadhaar number on or before 31.3.2022. She intimated the number after 3 months from 31.3.2022. Hence, she will need to pay fee u/s 234H of 1,000 while intimating the number. Further, PAN would become inoperative from 1.4.2023 as per Circular 7/2022. It would again become operative from 10.4.2023. Thus, it will be deemed that she did not quote the PAN on documents pertaining to purchase of car.
- M34.** Best judgment assessment u/s 144 will not apply as he has not failed to furnish his return.
- M35.** Interest u/s 234A = 1% for 9 months (1.8.2023 to 15.4.2024; part of a month is taken as full month) on 20,900 (45,620 tax determined on assessment – 12,000 advance tax paid – 12,650 TDS deducted = 20,970; any fraction of 100 is ignored) = 1,881.
- M36.** Interest u/s 234A is not payable since entire tax is paid before due date of return.
- M37.** Total income is > 5 lakh. Fee u/s 234F = 5,000.
- M38.** Fee u/s 234F cannot exceed 1,000 as total income is not > 5 lakh.
- M39.** Self-assessment tax payable = 54,600 tax declared – 12,000 advance tax – 7,500 TDS deducted – 1,400 relief claimed u/s 89 + 2,500 interest + 5,000 fee = 41,200. Amount paid of 30,000 is short of amount payable. Amount paid is first towards fee payable of 5,000, then interest payable of 2,500, then tax payable of 22,500. Balance tax payable = 33,700 – 22,500 = 11,200.
- M40.** Interest u/s 234A and fee u/s 234F are not required to be paid since Mr. Gupta has already furnished the earlier return and would have paid these at the time of self-assessment.
- M41.** Since updated return is furnished after 12 months from the end of AY 2021-22 but before completion of 24 months from the end of AY 2021-22, additional tax = 50% of 43,500 (40,000 + 2,000 + 1,500) = 21,750.





# 16 Case Scenarios

**CASE 1.** Rohan, a citizen of India of age 45 years, was based out of Canada. He came to India on 1.5.2020 after a gap of 15 years and set up a business in Gandhinagar. He again left India on 1.1.2023 for taking up employment in Canada.

During the year 2022-23, Rohan had the following particulars of income and loss from sources in India: Income from retail business of Rs. 15 lakh; loss of Rs. 5 lakh from day trading in shares; loss of Rs. 50,000 from gambling activity; dividend of Rs. 1 lakh from shares of Z Ltd., an Indian company; interest of Rs. 50,000 from fixed deposit in Bank of India at Gandhinagar branch. He also earned the following incomes from sources in Canada: Salary income of Rs. 6 lakh and interest on Bonds of the Government of Canada of Rs. 50,000. These incomes were received in his bank account in Canada. He remitted 50% of salary received to his account in Bank of India at Gandhinagar branch.

Rohan gifted the amount received as dividend from Z Ltd. to his son, aged 12 years, on his birthday on 10.9.2022 His son invested the amount in Government of India Bonds on account of which he received interest of Rs. 10,000 on 1.3.2023.

Rohan paid life insurance premium @ 12% of sum assured of Rs. 10 lakh on the policy taken on 1.4.2020 on his life. He also paid medical insurance premium of Rs. 15,000 each for himself and his spouse by cheque and paid Rs. 10,000 in cash on account of preventive health check-up of his mother, aged 70 years and resident in India.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions for the AY 2023-24. Rohan has not opted for section 115BAC.

1: What is the residential status of Rohan?

- |                                      |  |
|--------------------------------------|--|
| (a) Resident and ordinarily resident | (b) Resident but not ordinarily resident |
| (c) Non resident                     | (d) Deemed resident                      |

2: What is the total income of Rohan?

- |               |               |
|---------------|---------------|
| (a) 15,28,500 | (b) 16,58,500 |
| (c) 15,30,000 | (d) 21,78,500 |

3: What is the tax liability of Rohan?

- |              |              |
|--------------|--------------|
| (a) 3,22,452 | (b) 2,82,360 |
| (c) 2,81,892 | (d) 4,84,692 |

4: What is the amount of TDS deducted or TCS collected on behalf of Rohan which he can adjust against his tax liability?

- |            |            |
|------------|------------|
| (a) 10,000 | (b) 15,000 |
| (c) 16,000 | (d) 20,000 |

**CASE 2:** Subhash, a resident of age 60 years, commenced manufacturing business in a Special Economic Zone on 1.4.2016. The business unit was formed by the transfer of new as well as second-hand plant and machinery. Second-hand plant and machinery accounted for 21% of the total value of plant and machinery. Total turnover of the unit for the PY 2022-23 was Rs. 152 lakh out of which 75% was on account of exports. The unit earned a profit of Rs. 50 lakh for the year. Export turnover included Rs. 2 lakh on account of freight and insurance attributable to the delivery of products outside India.

During the year, Subhash received Rs. 5 lakh out of the income of Jayesh HUF, of which he was a member. His PPF account matured during the year consequent to which he was paid Rs. 15 lakh as maturity proceeds. He had taken a life insurance policy on 15.7.2012 for a sum assured of Rs. 20 lakh at an annual premium of Rs. 1.75 lakh. He received Rs. 22 lakh as maturity proceeds during the year. He also received Rs. 25,000 as interest on Post Office Savings Account (individual), Rs. 30,000 as interest on savings bank account with State Bank of India and Rs. 50,000 as interest on fixed deposits with XYZ co-operative bank.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions for the AY 2023-24. Subhash has not opted for section 115BAC.

1: What is the amount of deduction available to Subhash u/s 10AA?

- |               |               |
|---------------|---------------|
| (a) 18,66,667 | (b) 37,33,333 |
| (c) 18,75,000 | (d) Nil       |

2: What would be the amount of deduction available to Subhash u/s 10AA, if it is assumed for the purpose of this question that the value of second-hand P&M was 20% of the total value of P&M?

- |               |               |
|---------------|---------------|
| (a) 18,66,667 | (b) 37,33,333 |
| (c) 18,75,000 | (d) Nil       |

3: What is the total income of Subhash?

- |               |               |
|---------------|---------------|
| (a) 50,91,500 | (b) 50,51,500 |
| (c) 31,84,833 | (d) 50,55,000 |

4: What is the tax liability of Subhash?

- |               |               |
|---------------|---------------|
| (a) 14,15,960 | (b) 13,78,468 |
| (c) 14,57,560 | (d) 14,18,560 |

**CASE 3:** Juhi, a resident of age 35 years, owns a plot of land in a rural area located 10 kms from the local municipal limits of Bhopal having a population of 20 lakh. During the PY 2022-23, she rented out 10% of the area of the plot to Vatsal who used it to cultivate maize and paid a rent of Rs. 10,000 per month to Juhi.

20% of the area of the plot was used by Juhi for paddy farming. She sold the paddy in the market for Rs. 3,00,000 after incurring expenses on farming of Rs. 1,20,000 and carrying on activities of cleaning, filtering and packing before taking it to the market. 40% of the area of the plot was used by Juhi for producing sugarcane which she used to manufacture sugar. She incurred Rs. 2,00,000 on cultivating sugarcane and Rs. 1,00,000 on manufacturing sugar. Sugar was sold in the market for Rs. 10,00,000. Market value of sugarcane was Rs. 6,00,000.

Juhi also owned a storehouse adjacent to the land which she used to store paddy and sugarcane. Annual letting value of the storehouse was Rs. 3,60,000. Juhi maintained a nursery in 10% of the area of the plot where she grew saplings and seedlings in pots without carrying out any operations on land as such. Sale of saplings and seedlings for the year amounted to Rs. 1,50,000. She incurred Rs. 50,000 as expenses in running the nursery.

20% of the area of the plot was not put to any use. Juhi sold this piece of land to Mohan for Rs. 5,00,000 on 1.9.2022. Stamp duty value on this date was Rs. 10,00,000. The cost of this portion of land was Rs. 1,00,000 which she had acquired on 1.5.2006. During the year, she received Rs. 2,50,000 as dividend from a company, engaged in agricultural business, in which she was a majority shareholder.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions for the AY 2023-24. Juhi has not opted for section 115BAC.

1: Determine the amount of income taxable as business income in the hands of Juhi?

- |              |              |
|--------------|--------------|
| (a) 7,00,000 | (b) 4,80,000 |
| (c) 3,00,000 | (d) 5,80,000 |

2: Determine the amount taxable as Income from Other Sources in the hands of Juhi?

- |              |              |
|--------------|--------------|
| (a) 2,50,000 | (b) 3,70,000 |
| (c) 6,10,000 | (d) 7,30,000 |

3: Determine the amount taxable as capital gain in the hands of Juhi?

- |              |              |
|--------------|--------------|
| (a) 4,00,000 | (b) 2,29,060 |
| (c) 7,29,060 | (d) Nil      |

4: What is the total income of Juhi?

- |              |              |
|--------------|--------------|
| (a) 7.79,060 | (b) 5,50,000 |
| (c) 3,00,000 | (d) 6,50,000 |

**CASE 4:** Rahul, a citizen of India of age 40 years, works as an engineer in Cruise Pvt. Ltd., an Indian shipping company. During the PY 2022-23, he left India as member of the crew of Virat Liner, an Indian ship belonging to his employer company, on a voyage to Europe. The date of joining the ship and signing off from the ship as per the Continuous Discharge Certificate were 15.9.2022 and 15.3.2023. Rahul has never been a non-resident in India. His stay in India has never fallen below 200 days in any of the earlier years. He received the following emoluments from Cruise Pvt. Ltd. for the PY 2022-23:

- Basic salary of Rs. 1,50,000 per month.
- Bonus of Rs. 1,00,000.
- Leave encashment of Rs. 50,000.
- Entertainment allowance of Rs. 2,000 per month.
- Employer's contribution to recognized provident fund at the rate of 12.5% of basic salary. Rahul made a matching contribution. Interest was credited @ 9% p.a.
- Employer's contribution to National Pension Scheme at the rate of 10% of basic salary. Rahul made a matching contribution.
- Reimbursement of expenditure of Rs. 20,000 on medical treatment of dependent mother in a Government hospital.
- House rent allowance of Rs. 20,000 per month. Rahul paid rent of Rs. 25,000 per month while staying in a flat in Mumbai.
- Conveyance allowance of Rs. 5,000 per month for commuting between residence and office.

- Motor car owned by Cruise Pvt. Ltd. of 2,000 cc which was used by Rahul for personal and official purposes. The car was self driven by Rahul. Running and maintenance expenses were paid by employer.
- Rs. 10,000 reimbursed towards fees to pursue a course on shipping engineering.
- Laptop, purchased by Cruise Pvt. Ltd. for Rs. 50,000 on 1.12.2021. This was used by Rahul for personal and official purposes.
- Professional tax of Rs. 2,500 was paid by the employer on behalf of Rahul.

1,000 ESOP shares of employer company were allotted to Rahul on 15.6.2022 on which date the FMV was Rs. 500 per share. Rahul exercised the option to acquire the shares on 1.6.2022 on which date the FMV was Rs. 510 per share. Rahul paid Rs. 110 per share. He sold all the shares on 31.3.2023 at Rs. 900 per share. FMV of shares was Rs. 900 per share on 31.3.2023.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions for the AY 2023-24. Rahul has not opted for section 115BAC.

1: What is the residential status of Rahul?

- |                                      |  |
|--------------------------------------|--|
| (a) Resident and ordinarily resident | (b) Resident but not ordinarily resident |
| (c) Non resident                     | (d) Deemed resident                      |

2: What is the taxable income of Rahul under the head 'Salaries'?

- |               |               |
|---------------|---------------|
| (a) 27,11,800 | (b) 27,74,300 |
| (c) 27,81,800 | (d) 27,21,800 |

3: What is the amount of deduction available to Rahul from his gross total income?

- |              |              |
|--------------|--------------|
| (a) 5,85,000 | (b) 1,50,000 |
| (c) 3,80,000 | (d) 2,50,000 |

4: What is the total income of Rahul?

- |               |               |
|---------------|---------------|
| (a) 23,41,800 | (b) 18,12,400 |
| (c) 27,31,800 | (d) 30,25,600 |

5: Determine the tax liability of Rahul.

- |              |              |
|--------------|--------------|
| (a) 6,57,320 | (b) 6,54,720 |
| (c) 5,79,320 | (d) 5,35,640 |

**CASE 5:** Siddhant, a resident of age 35 years, is a marketing manager employed with BCD Pvt. Ltd. drawing a basic salary of Rs. 1,00,000 p.m. He is based out of Varanasi having a population of 12 lakh. Dearness allowance is 70% of basic pay which forms part of salary as per terms of employment. In addition to this, he has also received the following emoluments during the PY 2022-23:

- Commission @ Rs. 10,000 p.m.
- Residential accommodation owned by BCD Pvt. Ltd. He is also provided with furniture hired by the company at Rs. 3,000 p.m. Siddhant pays a concessional rent of Rs. 1,000 p.m. towards the accommodation though the market rent is Rs. 10,000 p.m. He occupied the accommodation from 1.7.2022.
- Sweeper and watchman at his residence for which the company pays Rs. 4,000 p.m.
- Travelling allowance of Rs. 50,000 provided for the period September to December 2022 for the purpose of undertaking official tours for closing deals with various customers. He spent Rs. 40,000 on this account.
- Motor car of 2,000 cc for his personal use. The car was purchased by BCD Pvt. Ltd. for Rs. 5,00,000. Running, maintenance and driver expenses are borne by Siddhant.
- Children education allowance of Rs. 1,000 p.m., each for his two sons and one daughter, paid from July 2022 onwards. During the year, Siddhant paid tuition fee of Rs. 3,000 p.m. for each of his children studying in Classes VII, X and XII in JK Public School.

Siddhant owned a house in Chandigarh which he had let out for Rs. 20,000 p.m. He paid municipal taxes of 5% on the annual municipal valuation of Rs. 1,50,000. He incurred expenses on repair and maintenance of Rs. 30,000 and paid interest of Rs. 3,00,000 on loan taken from Bank of India for purchase of the house.

During the year, he invested Rs. 60,000 in the PPF account of his spouse and Rs. 50,000 in Sukanya Samriddhi Account of the daughter of his friend. He received interest of Rs. 50,000 on his savings bank account and interest of Rs. 1,00,000 on bank fixed deposits.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions for the AY 2023-24. Siddhant has not opted for section 115BAC.

1: What is the taxable value of perquisites in the hands of Siddhant?

- |              |              |
|--------------|--------------|
| (a) 2,81,520 | (b) 2,60,320 |
| (c) 3,82,280 | (d) 3,34,280 |

2: What is the amount taxable under the head 'Salaries'?

- |               |               |
|---------------|---------------|
| (a) 23,76,230 | (b) 23,54,650 |
|---------------|---------------|

- (c) 24,32,570 (d) 24,26,720
- 3: What is the amount taxable under the head 'Income from house property'?
- (a) 12,750 (b) 1,32,750  
(c) Loss of 1,37,250 (d) Loss of 2,00,250
- 4: What is the amount of deduction allowable to him from the gross total income?
- (a) 1,60,000 (b) 1,42,000  
(c) 1,82,000 (d) 1,92,000
- 5: What would be the tax liability of Siddhant if he is open to opt for section 115BAC in order to minimize his tax liability?
- (a) 5,21,811 under regular provisions (b) 5,04,275 u/s 115BAC  
(c) 5,47,098 u/s 115BAC (d) 5,51,760 under regular provisions

**CASE 6:** Ramesh, 62 years of age, is a citizen of USA and runs his own business from Chicago. He was born in Chicago. His grandmother was born in the present-day Pakistan on 15.6.1906. During the PY 2022-23, he visited India for 90 days.

He stays in his own house in Chicago. He also owns another house in Boston which he had let out on a monthly rent of USD 1,000. Assume an exchange rate of Rs. 75 for the purpose of calculations. Rent from the house in Boston was received in his bank account in Chicago.

He owns a house in Delhi which he had let out on a rent of Rs. 30,000 p.m. Rent was received in his bank account in Chicago. While in India during the PY 2022-23, he cleared municipal tax dues of the last 3 years amounting to Rs. 45,000. Expected rent of the house was Rs. 3,00,000 p.a. The tenant vacated this house on 31.12.2022 after which it was not used for any other purpose for the rest of the year. Ramesh had constructed this house by taking loan from Union Bank of Rs. 30,00,000 on 1.4.2018 at 10% p.a. interest. Construction got completed on 1.4.2021. Entire principal amount of loan was outstanding as on 31.3.2023. He gifted this house to his spouse on 31.3.2023.

He had earlier owned a house in Patna which he sold on 1.6.2021. He recovered unrealized rent of Rs. 1,20,000 in respect of this house on 1.9.2022. Rent was received in his bank account in Delhi. Ramesh also owned a residential flat in Gandhinagar which he had purchased 18 months back for Rs. 20,00,000. He sold the flat to his friend, Mukesh, for Rs. 10,00,000 on 1.4.2022. Stamp duty value on this date was Rs. 25,00,000. He utilized the sale consideration to purchase another flat in Rajkot for Rs. 10,00,000 on 15.7.2022.

Unabsorbed loss from house property of AY 2022-23 was Rs. 1,00,000. His income from business in Chicago was USD 3,00,000. No proceeds from this business were received in India.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions for the AY 2023-24. Ramesh has not opted for section 115BAC.

- 1: What is the residential status of Ramesh?
- (a) Resident and ordinarily resident (b) Resident but not ordinarily resident  
(c) Non resident (d) Deemed resident
- 2: What is the amount chargeable to tax under the head 'Income from house property'?
- (a) (—) 2,38,500 (b) (—) 3,38,500  
(c) 3,91,500 (d) 84,000
- 3: What is the amount taxable as capital gain in the hands of Ramesh?
- (a) STCG of 5,00,000 (b) Nil  
(c) STCG of (—) 10,00,000 (d) LTCG of 5,00,000
- 4: Determine the total income of Ramesh.
- (a) 1,61,500 (b) 2,61,500  
(c) (—) 12,38,500 (d) Nil
- 5: Is Ramesh required to file his return of income in India for AY 2023-24? If yes, specify the due date.
- (a) No (b) Yes, 30.11.2023  
(c) Yes, 31.10.2023 (d) Yes, 31.7.2023

**CASE 7:** Rakhi commenced business of real estate development on 1.4.2021. She constructed a housing complex with 10 residential units and 2 commercial units during the PY 2021-22 at a cost of Rs. 10,00,000 each. Certificate of completion for all the units was obtained in the month of January 2022. Expected rent of each unit was Rs. 50,000 p.m. All the units were independent units. Due to slump in the real estate market, she could manage to sell only two units during the PY 2022-23.

Unit A, a residential unit, was sold to Jayesh, a lawyer, for Rs. 15,00,000 on 1.6.2022. Stamp duty value of the unit on this date was Rs. 17,00,000. Rakhi received 5% of the consideration by account payee cheque on 15.5.2022, being the date of agreement, when the stamp duty value of the unit was Rs. 16,25,000.

Unit C, a commercial unit, was sold to Suresh, a property dealer, for Rs. 14,00,000 on 1.9.2022. Stamp duty value of the unit on this date was Rs. 18,00,000. Rakhi received 5% of the consideration by cash on 15.8.2022, being the date of agreement, on which date the stamp duty value of the unit was Rs. 17,50,000. Suresh sold Unit C to Mahesh on 1.11.2022 for Rs. 20,00,000. Stamp duty value of the unit on this date was Rs. 18,00,000.

Rakhi was able to let out 5 residential units for whole of the year at a monthly rent of Rs. 40,000. All the tenants were salaried individuals not engaged at any time in any business or profession. Rest of the 5 units lay vacant during the year.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions for the AY 2023-24. Rakhi has not opted for section 115BAC.

1: Determine the total income of Rakhi assuming that she did not have any other source of income or transactions other than those mentioned in the question above.

- (a) 36,50,000 (b) 33,50,000  
(c) 34,00,000 (d) 35,50,000

2: Determine the income chargeable to tax in the hands of Jayesh arising from the above stated transactions.

- (a) Nil (b) 2,50,000  
(c) 3,50,000 (d) 3,00,000

3: Determine the income chargeable to tax in the hands of Suresh arising from the above stated transactions.

- (a) Nil (b) 4,00,000  
(c) 6,00,000 (d) 3,50,000

4: What amount of tax would be liable to be deducted at source on behalf of Rakhi on account of the above stated transactions?

- (a) 29,000 (b) 2,40,000  
(c) 1,20,000 (d) Nil

5: Is Rakhi required to quote her PAN in the documents pertaining to the above stated transactions?

- (a) Yes, for sale of units (b) Yes, for sale and letting out of units  
(c) Yes, for letting out of units (d) No

**CASE 8:** Vrinda, a resident in India, owns the following properties during the PY 2022-23: A house in Delhi in which she stays with her family. A flat in Varanasi which she has let out to Mr. B, a businessman having turnover from business of Rs. 1.25 crore and Rs. 95 lakh for FY 2021-22 and FY 2022-23, respectively. A showroom in Delhi which she uses to carry on her business of retail. An under-construction flat in Mumbai which she has given to PQR Pvt. Ltd. for 4 months for being used as a temporary godown. Business turnover of PQR Pvt. Ltd. is Rs. 5 crore for FY 2021-22. Following details are available in respect of the aforesaid properties.

Particulars	House in Delhi	Flat in Varanasi	Showroom in Delhi	Flat in Mumbai
Municipal value	5,00,000	3,00,000	6,00,000	-
Fair rent	6,00,000	2,50,000	9,00,000	-
Actual rent	-	26,000 pm	-	10,000 pm
Municipal taxes of PY 2022-23	@ 5% paid by Vrinda on 1.3.2023	@ 10% paid by Mr. B on 1.3.2023	@ 5% paid by Vrinda on 1.11.2023	-
Repairs	20,000	10,000	15,000	-
Insurance	6,000	3,000	4,000	-
Interest on loan taken from SBI for renovation of property (paid on the due dates falling within the PY 2022-23)	50,000	50,000	20,000	-
Expenses for drafting agreement paid to the lawyer in cash on 1.7.2022.	-	-	-	5,000

She repaid Rs. 3,00,000 to SBI during the PY 2022-23 on account of principal component of the loan. Vrinda filed her return of income for AY 2023-24 on the due date of 31.10.2023. Her income from business, without accounting for the above referred expenses, was Rs. 5 lakh.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions for the AY 2023-24. Vrinda has not opted for section 115BAC:

1: Compute the income of Vrinda under the head 'Income from house property'.

- (a) 1,38,400 (b) 1,18,400  
(c) 1,17,400 (d) 2,22,400

2: Compute the income of Vrinda under the head 'Profits and gains of business or profession'.

- (a) Nil (b) 4,31,000  
 (c) 4,51,000 (d) 4,61,000

3: Compute the income of Vrinda under the head 'Income from other sources'.

- (a) Nil (b) 35,000  
 (c) 40,000 (d) 4,75,000

4: Compute the total income of Vrinda.

- (a) 3,34,400 (b) 4,84,400  
 (c) 6,34,400 (d) Nil

5: Determine the amount of prepaid taxes, if any, which Vrinda can claim as adjustment against her tax liability.

- (a) Nil (b) 15,600  
 (c) 34,200 (d) 31,200

**CASE 9:** Jay purchased a house in Patna for Rs. 20 lakh on 1.7.2020 and spent Rs. 5 lakh for construction of an additional floor (construction got completed on 1.9.2022). Municipal value of the house is Rs. 3 lakh p.a. while standard rent is Rs. 2.4 lakh p.a. He paid municipal taxes of Rs. 50,000 on 31.3.2023 (which included Rs. 35,000 of prior years) and insurance premium for a period of five years on 1.12.2022 amounting to Rs. 10,000. He used this house for his self-residence. He had taken a loan from Bank of India on 1.6.2020 for purchase of the house in respect of which he made payment of Rs. 2 lakh towards principal and Rs. 3 lakh towards interest during the PY 2022-23. Stamp duty value of the house is Rs. 40 lakh.

Jay acquired another house in Gandhinagar on 1.4.2021 for Rs. 10 lakh from his friend on which date its stamp duty value was Rs. 20 lakh. He let out this house on a monthly rent of Rs. 40,000. He paid municipal taxes of Rs. 10,000 on 31.3.2023 out of which Rs. 7,000 were paid in advance for the next year. Municipal taxes were levied @ 1%. He incurred Rs. 1,25,000 towards repairs and painting of the house during the previous year. He sold the house on 15.3.2023 for Rs. 30 lakh. The agreement to sell was made on 1.1.2023 on which date he received 10% of the sale value as advance by net banking. Stamp duty value of the house was Rs. 31 lakh on 1.1.2023 and Rs. 34 lakh on 15.3.2023. The house was let during the year till the month of February 2023. Out of the sale proceeds, Jay invested Rs. 10 lakh in the bonds of NHAI on 15.6.2023.

He did not opt to be governed by section 115BAC for the previous year 2022-23. Brought forward loss from house property of AY 2020-21 amounted to Rs. 1,50,000. Jay filed his return of income on the due date for AY 2023-24. However, he had filed his return of income for AY 2020-21 five days after the due date. Jay did not own any house property other than those stated above.

Based on the facts of case scenario given above, choose the most appropriate answer to the following questions for the AY 2023-24:

1: Compute the income chargeable under the head 'Income from house property'.

- (a) Loss of 2 lakh (b) 3,01,000  
 (c) Nil (d) 1,01,000

2: Determine the amount of loss that can be carried forward to AY 2023-24.

- (a) 49,000 (b) Nil  
 (c) 1,50,000 (d) 1,49,000

3: Compute the income chargeable under the head Capital Gains.

- (a) 14,00,000 (b) 10,00,000  
 (c) Nil (d) 20,00,000

4: Compute the total income of Jay.

- (a) 8,50,000 (b) 10,00,000  
 (c) 12,50,000 (d) 7,50,000

**CASE 10** - Suyash is engaged in the business of manufacture of computer hardware since 2016. During the PY 2022-23, he acquired the following assets:

- Purchased second hand furniture costing Rs. 1,00,000 on 15.4.2022.
- Purchased warehouse for Rs. 20,00,000 on 10.11.2022.
- Purchased machine for Rs. 10,30,000 on 15.9.2022 which was delivered on 20.9.2022 and installed on 15.12.2022.
- Purchased motor car for Rs. 5,00,000 on 5.3.2023.
- Purchased a vacant plot of land for Rs. 15,00,000 on 15.6.2022.
- Purchased electricity generators for Rs. 1,50,000 on 18.9.2022.

WDV as on 1.4.2022 was as under: Intangible assets comprising patent – Rs. 20,00,000; Building comprising factory – Rs. 30,00,000; Plant and machinery – Rs. 10,00,000.

Suyash sold a machine (purchased on 1.8.2021) for Rs. 6,00,000 on 20.5.2022. He also provided the following information:

- Land was purchased jointly with his friend Govind with both enjoying equal share.

- Generators were installed but could not be used during the year as there was no power outage.
- Cost of machine included Rs. 30,000 paid to Salim towards freight and insurance. Payment was made on 20.9.2022 by cash.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions for the AY 2023-24, assuming that plant and machinery is entitled to 15% rate of depreciation. Suyash has not opted for section 115BAC.

1: What is the amount of depreciation allowable on plant and machinery?

- |              |              |
|--------------|--------------|
| (a) 1,95,000 | (b) 3,25,000 |
| (c) 1,30,000 | (d) 3,75,000 |

2: What is the closing WDV of block of building?

- |               |               |
|---------------|---------------|
| (a) 46,00,000 | (b) 45,00,000 |
| (c) 48,00,000 | (d) 50,00,000 |

3: What is the total amount of depreciation that is allowable to Suyash?

- |               |               |
|---------------|---------------|
| (a) 13,85,000 | (b) 15,75,000 |
| (c) 12,35,000 | (d) 12,90,000 |

4: What is the aggregate of the closing WDV for all the block of assets?

- |               |               |
|---------------|---------------|
| (a) 79,15,000 | (b) 94,15,000 |
| (c) 89,20,000 | (d) 78,75,000 |

**CASE 11:** Zakir started the business of printing books on 1.4.2022. During the PY 2022-23 he acquired following assets from Q Ltd.:

- Second hand Machine A for Rs. 5 lakh. Put to use on 1.12.2022.
- Machine B for Rs. 3 lakh. Put to use on 1.5.2022.
- Computers for Rs. 2 lakh. Put to use on 1.2.2023. A computer purchased for Rs. 50,000 was installed in the factory. Rest of the computers were installed in the office.
- Furniture for Rs. 4 lakh. Put to use on 1.7.2022.

He had taken business loan of Rs. 10 lakh from the State Bank of India on 1.7.2022 at interest of 10% p.a. The loan was fully outstanding as at the end of the year. While he paid 3/4<sup>th</sup> of the interest for 2022-23 within the year itself, he could pay the balance interest only on 15.8.2023. He made four payments of Rs. 28,000 each to Jagat Transport for carriage of books by road without deducting tax at source. Jagat Transport was a goods carriage operator who owned 15 goods carriages.

He filed his return of income on 30.8.2023. Turnover from business for the year was Rs. 2.5 crore. Total receipts in cash accounted for 2% of total receipts for the previous year. The corresponding percentage was 5% in respect of payments. Transactions not made in cash were made by way of net banking or account payee cheque.

He was a shareholder in Kalki Ltd., an Indian company, holding 100 shares which he had purchased on 15.4.2019 for Rs. 500 per share. The company bought back these shares for Rs. 900 per share on 15.11.2022.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions for the AY 2023-24. Zakir has not opted for section 115BAC.

1: Determine the amount of depreciation allowable as deduction u/s 32.

- |              |              |
|--------------|--------------|
| (a) 2,27,500 | (b) 1,62,500 |
| (c) 2,37,500 | (d) 3,22,500 |

2: What is the due date for filing of return of income for Zakir?

- |                |                |
|----------------|----------------|
| (a) 31.7.2023  | (b) 31.10.2023 |
| (c) 30.11.2023 | (d) 20.11.2023 |

3: Determine the expenditure (excluding depreciation) that Zakir can claim as deduction in computing business income.

- |              |              |
|--------------|--------------|
| (a) 1,34,650 | (b) 1,53,400 |
| (c) 1,68,250 | (d) 1,87,000 |

4: Compute the amount of tax that Zakir was required to deduct at source in respect of the payments he made.

- |           |           |
|-----------|-----------|
| (a) 7,500 | (b) 1,120 |
| (c) 8,620 | (d) Nil   |

5: Determine the income of Zakir under the head 'Capital Gains'.

- |            |            |
|------------|------------|
| (a) 40,000 | (b) Nil    |
| (c) 32,546 | (d) 90,000 |

**CASE 12:** JJ & Co, is a partnership firm comprising Y and Z as partners. It's turnover for the PY 2022-23 was Rs. 5 crore and allowable deduction for expenditure (other than remuneration and interest to partners) was Rs. 4.5 crore. This included payment of

commission to Mr. X of Rs. 10 lakh. Mr. X did not furnish his PAN to the firm. The firm made 7.5% of its total payments during the year in cash, while all its receipts during the year were by way of account payee cheque.

Interest on capital @ 15% p.a. was allowed to partners aggregating to Rs. 5 lakh. The firm paid remuneration of Rs. 1.5 lakh per month to each partner. Income computed under the head 'Income from Other Sources' was Rs. 3 lakh. The firm had unabsorbed business loss of Rs. 2 lakh pertaining to AY 2020-21 for which belated return was filed on 15.12.2021.

JJ & Co sold a building on which it earned short term capital gain of Rs. 6 lakh. It had brought forward long-term capital loss of AY 2015-16 of Rs. 10 lakh. During the year, the firm donated Rs. 50,000 to the National Defence Fund by cheque, a furniture of value Rs. 20,000 to a charitable trust and Rs. 30,000 in cash for renovation of a notified temple.

Based on the facts of case scenario given above, choose the most appropriate answer to the following questions for the AY 2023-24:

1: What is the amount of income chargeable under the head 'Profits and gains of business or profession'?

- |               |               |
|---------------|---------------|
| (a) 15,50,000 | (b) 10,00,000 |
| (c) 17,50,000 | (d) 15,10,000 |

2: What is the total income of the firm?

- |               |               |
|---------------|---------------|
| (a) 26,00,000 | (b) 25,50,000 |
| (c) 16,00,000 | (d) 15,50,000 |

3: Determine the amount of tax that the firm needs to deduct at source based on the information furnished in the question?

- |              |              |
|--------------|--------------|
| (a) 50,000   | (b) 2,00,000 |
| (c) 3,60,000 | (d) 5,60,000 |

4: What amount of loss can the firm carry forward to the next assessment year?

- |               |              |
|---------------|--------------|
| (a) 10,00,000 | (b) Nil      |
| (c) 4,00,000  | (d) 2,00,000 |

5: What is the due date to file return of income for JJ & Co and Z?

- |  |  |
|--|--|
| (a) 31 July for JJ & Co and Z                | (b) 31 October for JJ & Co and 31 July for Z |
| (c) 31 July for JJ & Co and 31 October for Z | (d) 31 October for JJ & Co and Z             |

**CASE 13:** Gaurav is employed as a software engineer with XYZ Ltd. He purchased a residential flat in Kusum Apartments, Ahmedabad, from DLF Builders Ltd., an Indian company, on 15.11.2022 for a consideration of Rs. 60 lakh. His friend was a director in DLF Builders Ltd. Stamp duty value of the flat on the date of transfer was Rs. 70 lakh. Agreement was entered into on 15.10.2022 upon payment of 10% of the consideration by way of bearer cheque. Stamp duty value on that date was Rs. 65 lakh.

Gaurav owned a commercial building in Ahmedabad which he had purchased for Rs. 20 lakh on 10.8.2020. He sold the building to his friend, Yash, on 14.6.2022 for the same price at which he purchased. Stamp duty value of the building was Rs. 55 lakh on 14.6.2022. Entire payment was received on this date.

He also owned agricultural land in a village situated 10 kms from the local jurisdictional limit of Ahmedabad. Population of Ahmedabad is 85 lakh. He sold this land to another friend, Gyan, on 1.9.2022 for Rs. 60 lakh. On this date the stamp duty value of land was Rs. 80 lakh. Entire payment was received on this date. He had purchased the land for Rs. 20 lakh on 12.4.2011.

Gross income taxable under the head 'Salaries' was Rs. 30 lakh. He paid Rs. 10,000 for preventive health check and also paid Rs. 50,000 as premium for health insurance of self and spouse. These payments were made in cash.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions for the AY 2023-24. Gaurav has not opted for section 115BAC.

1: What amount is taxable in the hands of Gaurav on purchase of residential flat?

- |              |               |
|--------------|---------------|
| (a) Nil      | (b) 10,00,000 |
| (c) 5,00,000 | (d) 15,00,000 |

2: Determine the amount of capital gains taxable in the hands of Gaurav.

- |  |                       |
|--|-----------------------|
| (a) Nil                                  | (b) LTCG of 77,03,593 |
| (c) LTCG of 37,96,407; STCG of 35,00,000 | (d) STCG of 35,00,000 |

3: Ascertain the amount of tax that Gaurav needs to deduct at source?

- |            |            |
|------------|------------|
| (a) Nil    | (b) 70,000 |
| (c) 60,000 | (d) 65,000 |

4: Compute the total income of Gaurav.

- |               |               |
|---------------|---------------|
| (a) 74,45,000 | (b) 73,95,000 |
| (c) 65,50,000 | (d) 75,50,000 |

5: What is the amount of TDS that Gaurav can claim as credit against his tax liability (excluding that deducted from salary)?

- |            |         |
|------------|---------|
| (a) 20,000 | (b) Nil |
|------------|---------|



(c) 60,000

(d) 80,000

**CASE 14:** Devika, a citizen of India, carried on business in Bahrain, while staying there since the last 10 years. The business was controlled from Bahrain. She visited India from 1.6.2016 to 20.9.2016 and then from 1.9.2021 to 10.10.2021 for business work. She closed down her business during the previous year 2022-23 and came to Pune, India on 15.12.2022. Business income for the previous year 2022-23 was Rs. 15,00,000. She did not face income tax liability in Bahrain as she was not liable to tax under its law.

She joined PQR Pvt. Ltd., Pune, as the chief marketing officer with effect from 1.1.2023. The compensation package comprised basic salary of Rs. 2,00,000 p.m., HRA of Rs. 50,000 p.m. and an 'all expenses paid' Honda car of 1498 cc owned by the company. She drove the car herself and used it for both personal and official purposes. She stayed in a flat owned by Geetika, a resident in India, for which she paid rent of Rs. 60,000 p.m. for the period 1 January onwards. Geetika did not furnish her PAN to Devika.

Devika received interest of Rs. 70,000 on bonds of Bahrain Government. This was credited in her bank account in Bahrain on 1.12.2022 and subsequently transferred to her Indian bank account in Pune on 20.12.2022. She held shares in companies of the UAE in respect of which she received dividend of Rs. 90,000 directly in her bank account in Pune.

While in India, she purchased 1,000 shares of Blue Ltd. on 20.12.2022 @ Rs. 500 each (brokerage paid @ 1%). The company declared bonus shares in the ratio 1:1 on 1.2.2023. She sold 1,500 shares on 15.3.2023 @ Rs. 450 each (brokerage paid @ 1.5%). Shares were sold in the order they were acquired. Blue Ltd. declared dividend of Rs. 50 per share on 15.1.2023 with a record date of 5.1.2023.

She owned a house in Delhi which was sold on 25.12.2022. She earned long term capital gain of Rs. 15,00,000 on this transaction. She has not opted to pay tax u/s 115BAC. She deposited Rs. 1,50,000 in the PPF account of her younger brother.

Based on the facts of case scenario given above, choose the most appropriate answer to the following questions for the AY 2023-24:

1: What is the residential status of Devika?

- |  |                                      |
|--|--------------------------------------|
| (a) Non resident                         | (b) Resident and ordinarily resident |
| (c) Resident but not ordinarily resident | (d) Resident                         |

2: What is the amount of income earned in Bahrain and taxable in India?

- |            |               |
|------------|---------------|
| (a) Nil    | (b) 15,00,000 |
| (c) 70,000 | (d) 90,000    |

3: What is the amount of tax, if any, that Devika needs to deduct at source?

- |            |            |
|------------|------------|
| (a) Nil    | (b) 9,000  |
| (c) 18,000 | (d) 36,000 |

4: What is the amount of tax that will be deducted at source on behalf of Devika?

- |           |            |
|-----------|------------|
| (a) Nil   | (b) 5,000  |
| (c) 2,500 | (d) 10,000 |

5: What is the total income of Devika?

- |               |               |
|---------------|---------------|
| (a) 22,35,275 | (b) 23,85,275 |
| (c) 38,85,275 | (d) 39,55,275 |

**CASE 15:** Jasmit is a Chartered Accountant and a resident in India. He celebrated his 50<sup>th</sup> birthday on 1.9.2022 on the occasion of which he received the following gifts:

- Cash of Rs. 40,000 from his friend.
- Wrist watch worth Rs. 75,000 from the son of his elder brother who is a dealer in watches. He had purchased the watch from the wholesaler for Rs. 20,000 on 1.6.2022.
- Modern Art painting created by his younger sister especially for this occasion (worth Rs. 60,000 in the market).
- Car of value Rs. 5 lakh from his father. Car was purchased on 1.9.2022.
- Shares of PQR Pvt. Ltd. (FMV Rs. 1 lakh) from his colleague who had purchased these for Rs. 40,000 on 1.1.2021.
- Mobile phone for personal use worth Rs. 80,000 from younger brother of his grandfather. He had purchased the phone on 15.8.2022 from a local shop for the same amount.
- Rs. 3 lakh from his spouse who transferred the amount from her bank account to the bank account of Jasmit.

Jasmit sold some of the above assets as given below:

1. Shares sold to his friend for Rs. 1 lakh on 1.3.2023 (FMV on this date Rs. 1.5 lakh).
2. Mobile phone sold for Rs. 60,000 on 1.12.2022.

Jasmit started a trading business on 1.1.2023. The business was set up on this day after infusing funds comprising the above stated sale proceeds, money gifted by his friend and spouse and Rs. 5 lakh of own savings. The profit from business for the period ending 31.3.2023 was Rs. 2 lakh. His spouse again gifted Rs. 2 lakh on 25.3.2023 which he infused in the business.

Based on the facts of case scenario given above, choose the most appropriate answer to the following questions for the AY 2023-24:

1: Determine the amount taxable in the hands of Jasmit under the head 'Income from Other Sources'.

- |              |              |
|--------------|--------------|
| (a) 1,40,000 | (b) 1,00,000 |
| (c) 1,75,000 | (d) 6,35,000 |

2: What is the amount chargeable as capital gains in the hands of Jasmit?

- |            |              |
|------------|--------------|
| (a) Nil    | (b) 1,10,000 |
| (c) 60,000 | (d) 50,000   |

3: Determine the amount of business income taxable in the hands of Jasmit?

- |              |              |
|--------------|--------------|
| (a) 60,000   | (b) 2,00,000 |
| (c) 1,40,000 | (d) Nil      |

4: What is the total income of the spouse of Jasmit assuming that she does not have any income of her own?

- |              |              |
|--------------|--------------|
| (a) Nil      | (b) 60,000   |
| (c) 1,40,000 | (d) 2,00,000 |

**CASE 16:** Mohini, the spouse of Madan, gifted Rs. 1,00,000 to her son, Suyash, on his 16<sup>th</sup> birthday falling on 1.10.2023, which was invested in fixed deposit with Bank of India at interest rate of 10% p.a. Suyash also won a prize of Rs. 50,000 in a singing competition. He used this amount to purchase shares of PQR Ltd. which were sold on 31.3.2023 at 1.5 times the purchase price after paying applicable securities transaction tax.

Madan gifted Rs. 10,00,000 to his wife on their anniversary falling on 15.4.2022. Out of this amount, she lent Rs. 3,00,000 to her neighbor on account of which she received interest of Rs. 30,000 during the year. She utilized the interest amount to purchase shares of XYZ Ltd. on which she received dividend of Rs. 5,000 on 15.2.2023. She used the balance of the gift to start her own business on 1.7.2022 in respect of which she suffered a loss of Rs. 50,000 during the year.

Mohini was employed with ABC Pvt. Ltd. drawing a salary of Rs. 50,000 per month. Madan was engaged in retail business from which he earned taxable income of Rs. 6,00,000 during the year. He had incurred a loss in business in the PY 2019-20 of Rs. 3,00,000 which had remained unabsorbed so far. Madan had failed to file his return of income within the due date for that year. During the current year he incurred loss in gambling of Rs. 20,000. Both Mohini and Madan invested Rs. 50,000 each in their PPF accounts. They opted to pay tax u/s 115BAC.

Based on the facts of case scenario given above, choose the most appropriate answer to the following questions for the AY 2023-24:

1: Income arising to Suyash will be clubbed in the hands of which parent?

- |   |   |
|---|---|
| (a) No income will be clubbed   | (b) Prize will not clubbed; other incomes will be clubbed with the income of Mohini |
| (c) Prize will not clubbed; other income will be clubbed with the income of Madan | (d) All incomes will be clubbed with the income of Mohini                           |

2: Dividend on shares will be included in whose income?

- |   |  |
|---|--|
| (a) Not included as it is exempt from tax | (b) In the income of Madan                     |
| (c) In the income of Mohini               | (d) Equally in the incomes of Madan and Mohini |

3: What is the total income of Madan?

- |              |              |
|--------------|--------------|
| (a) 5,80,000 | (b) 6,00,000 |
| (c) 4,80,000 | (d) 5,00,000 |

4: What is the total income of Mohini?

- |              |              |
|--------------|--------------|
| (a) 5,83,500 | (b) 6,33,500 |
| (c) 6,85,000 | (d) 6,35,000 |

**CASE 17:** Jagriti owns a house in Kolkata having fair rent of Rs. 40,000 p.m. and municipal value of Rs. 4,00,000 p.a. She gifted the house to her spouse, Chaman, on 1.4.2022 who let out the house at Rs. 51,000 p.m. from the same date to the tenant, a salaried employee. The tenant, however, vacated the house on 31.12.2022 after which the house remained vacant for the rest of the year. Municipal taxes were levied at 5% but these remained unpaid during the year.

She had purchased a house in Shillong for Rs. 20 lakh on 1.8.2020 which she sold for Rs. 45 lakh on 15.6.2022. She used the sale proceeds to purchase another house in Siliguri for Rs. 30 lakh on 15.7.2022. She gifted the balance sale proceeds to the HUF of which she was a member. The HUF invested the amount in Government of India Bonds on account of which it received interest of Rs. 1 lakh during the previous year.

Chaman was employed with Hero Motors Pvt. Ltd. as an accountant on a monthly salary of Rs. 40,000 p.m. He was an artist by qualification as well as experience. Jagriti had acquired 15% equity shares in the company on 20.3.2022. Subsequently, her brother had also acquired 5% equity shares in this company on 31.3.2022. Jagriti took a loan from the said company of Rs. 1 lakh on 15.9.2022. The company declared annual dividend on 1.1.2023. Jagriti was entitled to dividend of Rs. 1,50,000. However, the company adjusted the unpaid loan and paid the balance of Rs. 50,000 as dividend.

Jagriti and Chaman have no income other than that mentioned above. Chaman travelled to Singapore during the year in respect of which he incurred expenditure of Rs. 3 lakh. Jagriti paid medical insurance premium for self and spouse of Rs. 40,000 on 20.3.2023. Both wish to pay tax u/s 115BAC.

Based on the facts of case scenario given above, choose the most appropriate answer to the following questions for the AY 2023-24:

1: What is the amount of house property income taxable in the hands of Chaman?

- (a) Nil (b) 3,36,000  
(c) 4,59,000 (d) 3,21,300

2: What is the total income of Jagriti?

- (a) 35,01,300 (b) 36,51,300  
(c) 35,51,300 (d) 35,26,300

3: What is the total income of Chaman?

- (a) 4,80,000 (b) 4,30,000  
(c) 8,01,300 (d) Nil

4: What is the total amount of tax to be deducted at source on payments made to Jagriti, Chaman and HUF, apart from salary?

- (a) 47,950 (b) 37,950  
(c) 45,000 (d) 25,000

5: What is the due date to furnish return of income for Jagriti and Chaman for the AY 2023-24?

- (a) 31 July for both (b) 31 July for Jagriti; Chaman need not file ROI  
(c) 31 October for Jagriti, 31 July for Chaman (d) Both need not file ROI

**CASE 18:** Sakshi, age 49 years, carries on an agency business and profession of a sports coach. Most of her receipts and payments are by way of cash or bearer cheque. Details of business and profession are given below:

Particulars	Business	Profession
Gross receipts for FY 2022-23	90 lakh	45 lakh
Gross receipts for FY 2021-22	110 lakh	55 lakh
Income for FY 2022-23	5 lakh	18 lakh
Income for FY 2021-22	8 lakh	15 lakh

During the year, she incurred loss of Rs. 5 lakh from trading in derivatives in securities carried out on recognized stock exchange. She also incurred loss of Rs. 1 lakh from card games. She had incurred a loss of Rs. 8 lakh on account of sale of listed equity shares of JKG Ltd. on 15.6.2021. She had held these shares for 16 months. The loss remained unabsorbed during the PY 2021-22.

Sakshi owned a plot of land within the jurisdictional limits of Indore, Madhya Pradesh. She had purchased the plot on 12.6.2021 for Rs. 10 lakh. She sold the plot to her friend on 15.4.2023 at 20% discount on the market rate of Rs. 20 lakh. The agreement to sell was entered into on 1.3.2023 on which date her friend made payment of 10% advance by account payee cheque. The stamp duty value of the plot was Rs. 17 lakh on 1.3.2023 and Rs. 18 lakh on 15.4.2023.

Sakshi had taken a loan from Canara Bank on 1.4.2013 for her daughter to help her pursue the MBA course from the USA. During the year, interest amounted to Rs. 1,50,000. She, however, paid Rs. 1,25,000 till 31.3.2023 and balance Rs. 25,000 during April 2023. In terms of the loan agreement, she had started paying interest from the year 2016-17.

She got her residential house renovated during September 2022 for which she made payment of Rs. 60 lakh to MKG Pvt. Ltd. Sakshi did not opt to pay tax u/s 115BAC. She filed her return of income on 10.8.2023.

Based on the facts of case scenario given above, choose the most appropriate answer to the following questions for the AY 2023-24:

1: Is Sakshi required to maintain books of account u/s 44AA and get tax audit done u/s 44AB of the Income Tax Act, 1961?

- (a) Yes (b) No  
(c) Needs to maintain books of account u/s 44AA but tax audit is not required u/s 44AB (d) Tax audit is required u/s 44AB but need not maintain books of account u/s 44AA

2: What is the amount of loss that Sakshi can carry forward to the AY 2024-25?

- (a) 8 lakh (b) 13 lakh  
(c) 5 lakh (d) 9 lakh

3: What is the total income of Sakshi?

- (a) 21,75,000 (b) 22,75,000  
(c) 22,50,000 (d) 27,75,000

4: What is the amount of tax that Sakshi needs to deduct at source on the payments made by her (other than for business or profession)?

- (a) Nil (b) 60,000  
(c) 1,20,000 (d) 3,00,000

5: What is the due date to file return of income for Sakshi?

- (a) 31 July (b) 31 October  
(c) 30 November (d) Not required to file return

6: What is the amount of late fees, if any, that Sakshi needs to pay in relation to filing of her return of income?

- (a) Nil (b) 1,000  
(c) 5,000 (d) 10,000

**CASE 19:** Johnny, a resident in India of age 42 years, has provided the following details for the PY 2022-23:

- Basic salary and taxable allowances amounting to Rs. 2,00,000 per month.
- Arrears of rent of Rs. 1,00,000 received from the tenant who stayed during the year 2020 in the house owned by him. Johnny had considered this amount of arrears while computing income from house property in that year. Johnny has been staying in this house ever since the tenant vacated the house in the year 2021.
- He sold the abovesaid house on 15.4.2022 resulting in long term capital gain of Rs. 5,00,000. Earlier to the sale, he was negotiating with Rohan for sale of this house. He had received advance of Rs. 1,00,000 from Rohan on 15.3.2022. Since the negotiations failed, Johnny forfeited the advance on 1.4.2022 in terms of the agreement.
- Sold 1,000 shares of PQR Ltd. on 10.3.2023 at Rs. 500 per share. These shares were purchased by him on 1.3.2001 at Rs. 50 per share. Shares are regularly traded on the National Stock Exchange. The highest and lowest price quoted as on 31.1.2018 was Rs. 310 and Rs. 290, respectively. STT was paid on sale. STT was not payable on purchase. Fair market value of shares as on 1.4.2001 was Rs. 55 per share.
- Received dividend of Rs. 63,000 in his bank account on 15.5.2022 in respect of shares held in PQR Ltd.
- He won a lottery prize and received Rs. 35,000 in his bank account.
- His adopted child, Roshni, of age 12 years, won Rs. 75,000 in the general knowledge competition.
- He had incurred loss of Rs. 1,20,000 in gambling activity on 10.2.2022. The loss remained unabsorbed during PY 2021-22.
- He paid tuition fees of Rs. 5,000 per month to the school in which Roshni is studying. The school also charged development fees of Rs. 20,000 during the year.
- Interest received on savings bank account with Punjab National Bank – Rs. 40,000.
- Interest on fixed deposits with banks received in his bank account – Rs. 1,40,000. Break up is as follows: Rs. 35,000 from Bank A, Rs. 35,000 from Bank B, Rs. 38,000 from Bank C, Rs. 32,000 from Bank D.

Johnny made the following investments during the year:

- NHAI bonds (redeemable after five years) purchased on 20.9.2022 – Rs. 3,00,000.
- Deposit in Sukanya Samriddhi account of Roshni – Rs. 1,00,000.
- 3 year term deposit with Bank of India – Rs. 1,00,000.
- Cash donation of Rs. 10,000 to the local political party.

Johnny does not want to opt for section 115BAC. Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions for the AY 2023-24:

1: What is the amount of taxable capital gains?

- (a) 8,90,000 (b) 6,45,000  
(c) 3,90,000 (d) 4,10,000

2: What is the amount of gross total income?

- (a) 31,40,000 (b) 31,18,000  
(c) 30,20,000 (d) 32,13,500

3: What is the amount of tax deducted at source on behalf of Johnny (except on salary income)?

- (a) 7,000 (b) 15,000  
(c) 22,000 (d) 36,000

4: What is the amount of deduction available under Chapter VIA?

- (a) 1,80,000 (b) 1,70,000  
(c) 1,90,000 (d) 1,60,000

5: Compute the amount of tax payable by Johnny.

- (a) 6,73,240 (b) 6,42,040  
(c) 6,54,240 (d) 6,84,840

**CASE 20:** Jasmeet, a resident and ordinarily resident in India of age 40 years, carries on business of manufacture of footwear. Turnover from business during the FY 2022-23 was Rs. 3,00,00,000. Owing to the nature of his business, he had to make 6% of payments by cash and bearer cheques. The rest were made by account payee cheques. However, all his receipts were by account payee cheques. Income from business was computed at Rs. 75,00,000 after allowing deduction of Rs. 70,00,000 u/s 35AD on account of purchase of factory building. He had employed 30 workmen as at the end of the preceding year (i.e., as on 31.3.2022). During the FY 2022-23, he further employed 40 workmen having the following details:

Date employed	No. of workmen	Category	Monthly emoluments	Participation in recognised provident fund
1.4.2022	10	Casual	20,000	No
1.6.2022	10	Regular	15,000	Yes
1.10.2022	10	Regular	25,000	Yes
1.12.2022	10	Regular	24,000	Yes

Emoluments were paid by account payee cheque to all the workmen except those employed on 1.6.2022 to whom it was paid in cash. Following additional particulars are available for the FY 2022-23:

- Received interest on Post Office Savings Bank A/c (individual A/c) of Rs. 13,500.
- Received interest (net of TDS, if applicable) on fixed deposits of Rs. 27,000 from Branch A of HDC Bank and Rs. 31,500 from Branch B of HDC Bank. The bank has adopted core banking solutions.
- Donated Rs. 60,000 to the Prime Minister's National Relief Fund.
- Sold listed shares of BCD Ltd. incurring a long-term capital loss of Rs. 2,00,000.
- Income from house property located in Canada: Rs. 1,00,000.
- Award of Rs. 5,00,000 received from the Footwear Manufacturers Association for his contributions to the industry.

He did not opt to be governed by section 115BAC. Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions for the AY 2023-24:

1: What is the amount of deduction available under section 80JJAA?

- (a) Nil (b) 11,70,000  
(c) 4,50,000 (d) 16,20,000

2: What is the amount of deduction available under Chapter VIA?

- (a) 5,20,000 (b) 5,60,000  
(c) 4,90,000 (d) 5,23,500

3: What is the total income chargeable to tax for PY 2022-23?

- (a) 71,55,000 (b) 74,55,000  
(c) 76,15,000 (d) 76,55,000

4: What is the amount of tax liability for the AY 2023-24?

- (a) 26,64,930 (b) 24,12,700  
(c) 14,99,430 (d) 22,12,350

5: What is the amount of tax credit that Jasmeet can carry forward to AY 2024-25?

- (a) Nil (b) 14,99,425  
(c) 2,52,230 (d) 24,12,700

6: What is the due date of filing of return of income for AY 2023-24?

- (a) 31 July (b) 30 September  
(c) 31 October (d) 30 November

# Answer Key for Case Scenarios

**CASE 1. 1B:** Employment rule applies as Rohan is an Indian citizen who leaves India in the PY for the purposes of employment outside India. As he is in India for  $\geq 182$  days in the PY, he is a resident. As he is in India for  $\leq 729$  days in preceding 7 PYs, he is a RNOR.

**2A:** Gross Total Income = Income from retail business 15,00,000 – Loss from day trading in shares NIL (not set off u/s 70 as it is loss from speculative business; carried forward to AY 2024-25) + Dividend 1,00,000 + Interest 50,000 – Loss from gambling NIL (cannot be set off or carried forward) + Salary from Canada NIL (as it is accrued and received outside India; repatriation to India is not taxable) + Interest on Bonds of Govt of Canada NIL (as it is accrued and received outside India) + Interest on bonds received by minor son clubbed u/s 64(1A) 8,500 (10,000 – 1,500 exempt u/s 10(32)) = 16,58,500. // Total Income = GTI of 16,58,500 – Deduction u/s 80C for LIP 1,00,000 (up to 10% of sum assured as policy is taken after 31.3.2012) – Deduction u/s 80D 30,000 (25,000 allowed for premium for self and spouse + 5,000 allowed for health check-up) = 15,28,500.

**3C:** Tax on Rs. 15,28,500 is Rs. 2,81,892

**4B:** TDS = 10,000 (10% u/s 194 on dividend) + 5,000 (10% u/s 194A on FD interest as it is  $>$  threshold of 40,000) = 15,000.

**CASE 2: 1D:** Deduction u/s 10AA is not available as unit was formed by transfer of second hand P&M exceeding 20% of total value of P&M.

**2A:** Deduction u/s 10AA is available as the value of second-hand P&M is up to 20%. PY 2022-23 is 7<sup>th</sup> year from PY 2016-17. Deduction is allowed @ 50%. Profits of unit = 50,00,000. Export turnover of unit = 1,14,00,000 (75% of 152 lakh) – 2,00,000 freight & insurance = 1,12,00,000. Total turnover of unit = 1,52,00,000 – 2,00,000 freight & insurance = 1,50,00,000. Deduction u/s 10AA = 50% of  $[50,00,000 \times (1,12,00,000 / 1,50,00,000)] = 18,66,667$ .

**3B:** Gross total income (GTI) = Business income 50,00,000 + Amount received from HUF exempt u/s 10(2) + PPF receipts exempt u/s 10(11) + LIP proceeds exempt u/s 10(10D) as premium does not exceed 10% of sum assured + POSA interest 21,500 (25,000 – 3,500 exempt u/s 10) + Savings A/c interest 30,000 + FD interest 50,000 = 51,01,500. // Total income = GTI 51,01,500 – Deduction u/s 80TTB 50,000 (for interest on savings A/c and FD, allowed up to 50,000) = 50,51,500.

**4A:** Tax liability = Tax on total income 13,25,450 + SC 36,050\* + HEC (@ 4% of Tax and SC) 54,460 = 14,15,960. // \*Marginal relief is available: Tax + SC on total income cannot exceed "Tax on 50 lakh + (Total Income – 50 lakh), i.e., 13,10,000 (Tax on 50 lakh) + 51,500 (Total income – 50 lakh), i.e., 13,61,500. Hence, SC will be 36,050 after accounting for marginal relief and not 1,32,545 @ 10%.

**CASE 3:** Land is agricultural land situated in India. Area is a rural area as it is situated beyond 8 kms from the local municipal limits of Bhopal. // *Income from rent (10% area):* Rent is exempt as agricultural income. Not taxable under the head IFOS. // *Income from paddy farming (20% area):* Income is exempt as agricultural income as only compulsory process is carried out. Not taxable under the head PGBP. // *Income from sugarcane (40% area):* Agricultural income = Market value of sugarcane 6,00,000 – Cultivation expenses 2,00,000 = 4,00,000. Business income = Sale price 10,00,000 – Market value of sugarcane 6,00,000 – Manufacturing expenses 1,00,000 = 3,00,000. // *Annual letting value of storehouse:* Income is exempt as storehouse is in the immediate vicinity of land and it is used for agricultural purpose. // *Income from nursery (10% area):* It is exempt as it is deemed to be agricultural income. // *Income from sale of land (20% area):* Rural agricultural land in India is not a capital asset. Capital gain does not arise. // *Income from dividend:* It is taxable under the head IFOS.

**1C:** Business income from sale of sugar is Rs. 3,00,000. **2A:** Dividend of Rs. 2,50,000. **3D:** No capital gain. **4B:** Total income = PGBP 3,00,000 + IFOS 2,50,000 = 5,50,000.

**CASE 4: 1A:** Period from 15.9.2022 to 15.3.2023 (182 days) is to be excluded under Rule 126. Thus, period of stay in India in the PY = 365 – 182 = 183 days. Ship crew rule applies as Rahul is a citizen of India who leaves India in the PY as member of crew of an Indian ship. Hence, Rahul is resident as stay in India is  $\geq 182$  days. He is not NR in 9 out of 10 preceding PYs and stay in India in preceding 7 PYs is  $>$  729 days. Hence, he is a ROR.

**2D: Gross salary** = Basic salary of 18,00,000 + Bonus 1,00,000 + Leave encashment during employment 50,000 + Entertainment allowance 24,000 + Employer's contribution to RPF in excess of 12% of salary (basic salary in this case) 9,000 + Interest on RPF in excess of 9.5% NIL + Employer's contribution to NPS @ 10% of basic salary 1,80,000 + Medical treatment in Government hospital of family member NIL as it is exempt + HRA (taxable; Note 1) 1,20,000 + Conveyance allowance 60,000 + Motor car @ 2,400 p.m. (as it is owned by and R&M expenses are met by employer) 28,800 + Course fee is exempt + Use of laptop is exempt + Professional tax paid by employer 2,500 + ESOP (Note 2) 4,00,000 = 27,74,300. // **Taxable salary** = 27,74,300 – Standard deduction 50,000 – Professional tax 2,500 = 27,21,800. // Note 1: HRA exempt u/s 10(13A) = Lower of (a) HRA received 2,40,000, (b) Rent paid – 10% of salary (3,00,000 – 1,80,000), i.e., 1,20,000, (c) 50% of salary, i.e., 9,00,000 = 1,20,000. HRA taxable = 2,40,000 – 1,20,000 = 1,20,000. // Note 2: Taxable value per share = 510 (FMV on date of exercise of option) – 110 (amount paid) = 400. Taxable value for 1,000 shares = 4,00,000.

**3C:** Deduction u/s 80C for RPF contribution of 2.25.000 = 1,50,000. // Deduction for employee contribution u/s 80CCD(1B) = 50,000. Deduction for employer contribution u/s 80CCD(2) = 1,80,000 (contribution of 1,80,000 allowed up to 10% of salary). Deduction for remaining employee contribution u/s 80CCD(1) = 1,30,000 (1,30,000 (1,80,000 – 50,000 considered u/s 80CCD(1B)), allowed up to 10% of salary). // Total deduction u/s 80C + 80CCD(1) = 2,80,000; allowed up to 1,50,000 as per section 80CCE. // Total deduction under Chapter VIA = 1,50,000 u/s 80CCE + 50,000 u/s 80CCD(1B) + 1,80,000 u/s 80CCD(2) = 3,80,000.

**4C:** Gross total income = Salary 27,21,800 + STCG on ESOP shares 3,90,000 (Full value of consideration 9,00,000 – FMV taken into account for salary 5,10,000) = 31,11,800. // Total income = GTI 31,11,800 – Deduction under Chapter VIA 3,80,000 = 27,31,800.

**5A:** Tax on total income of 27,31,800 is Income tax of 6,32,040 + HEC of 25,282 = 6,57,322. Rounded off 6,57,320.

**CASE 5: 1A:** Residential accommodation = 10% of salary\* as population of Varanasi is > 10 lakh and up to 25 lakh, i.e., 1,65,520 + 27,000 furniture hire charges – 9,000 rent charged = 1,83,520. \*Salary for 9 months = 9,00,000 basic salary + 6,30,000 DA + 90,000 commission + 10,000 travelling allowance (amount not spent for official purpose is taxable) + 25,200 children education allowance (27,000 received @ 3,000 p.m. for 9 months – 1,800 exempt for 2 children @ 100 pm) = 16,55,200. // Sweeper/watchman = 48,000. // Motor car = 10% p.a. of actual cost of 5,00,000 = 50,000. // Total = 2,81,520.

**2D:** Taxable salary = 12,00,000 basic salary + 8,40,000 DA + 1,20,000 commission + 10,000 travelling allowance (see working above) + 25,200 education allowance (see working above) + 2,81,520 perquisites (see working above) – 50,000 standard deduction = 24,26,720.

**3C:** GAV = Higher of 2,40,000 annual rent or 1,50,000 expected rent (municipal value) = 2,40,000. NAV = 2,40,000 GAV – 7,500 municipal taxes = 2,32,500. IHP = 2,32,500 NAV – 69,750 standard deduction @ 30% of NAV – 3,00,000 interest on loan = Loss of 1,37,250.

**4B:** Deduction u/s 80C = 72,000 for tuition fee for 2 children + 60,000 for PPF + NIL for Sukanya Samriddhi deposit as not eligible for daughter of friend = 1,32,000. // Deduction u/s 80TTA = Up to 10,000 on interest on savings bank account. // Total = 1,42,000.

**5A:** Tax liability if he does not opt for 115BAC: Total Income = 24,26,720 Salary income – 1,37,250 IHP loss set off u/s 71 + 1,50,000 IFOS (interest) – 1,42,000 Deduction under Chapter VIA = 22,97,470. Tax on total income = 5,21,811. // Tax liability if he opts for 115BAC: Total Income u/s 115BAC = Total Income under regular provisions 22,97,470 + 1,800 exemption for children education allowance blocked + 50,000 standard deduction blocked + 1,37,250 inter-head set off of IHP loss blocked + 1,42,000 Deduction under Chapter VIA blocked = 26,28,520, Tax u/s 115BAC = 5,47,098. // He should pay tax under regular provisions of 5,21,811.

**CASE 6: 1C:** Ramesh is a Person of Indian Origin (PIO) since his grandmother was born in undivided India. He comes on a visit to India during the PY for 90 days. Hence, he is a non-resident, whether tested under the visit rule (having the 182 day threshold for becoming a resident) or Visit & Income rule (having the 120 day threshold for becoming a resident). Stateless rule, which deems a person as resident, is not applicable as he is not a citizen of India.

**2A: Houses in USA:** Not taxable in India as Ramesh is a non-resident and income is accrued and received outside India. // **House in Delhi:** Income is taxable in India as accrued in India since house is in India though rent is received outside India. Since he gifted the house to spouse, he is deemed owner u/s 27 and IHP is taxable in his hands. Since, actual rent of 2,70,000 is < Expected rent of 3,00,000 owing to vacancy for 3 months, vacancy allowance is available and, hence, GAV is the actual rent of 2,70,000. NAV = 2,70,000 GAV – 45,000 municipal taxes paid during the PY by Ramesh = 2.25,000. IHP of Delhi house = 2,25,000 NAV – 67,500 standard deduction of 30% – 3,00,000 current year's interest (@ 10% of 30 lakh) – 1,80,000 prior period interest (interest of 9,00,000 for 3 years from 1.4.2018 to 31.3.2021, deductible in 5 annual instalments of 1,80,000 beginning with PY 2021-22) = (–) 3,22,500. // **Unrealized rent of house in Patna** = 1,20,000 – 36,000 standard deduction of 30% = 84,000. // **Income under the head IHP** = (–) 3,22,500 + 84,000 = (–) 2,38,500. Brought forward IHP loss of AY 2022-23 is carried forward to the next AY.

**3A:** STCG on sale of flat in Gandhinagar (since it is held for not more than 24 months) = 25,00,000 FVC u/s 50C (as SDV is > 110% of FVC) – 20,00,000 COA = 5,00,000. Exemption u/s 54/54EC is not available as gain is STCG.

**4B:** Total income = IHP (–) 2,38,500 + STCG 5,00,000 = 2.61.500.

**5D:** Total income of Ramesh (without deduction under Chapter VIA and capital gain exemption (these are, anyways, not available) is > 2,50,000. Return is to be filed. Due date is 31.7.2023.

**CASE 7: 1C: Sale of Unit A:** FVC u/s 43CA = 15,00,000 as SDV is not > 110% of consideration. SDV on date of agreement is considered as part consideration is received on date of agreement by a/c payee cheque. Business income = 15,00,000 – 10,00,000 = 5,00,000. // **Sale of Unit C:** FVC u/s 43CA = 18,00,000 as SDV is > 110% of consideration. SDV on date of agreement is not considered as part consideration is received in cash on this date. Business income = 18,00,000 – 10,00,000 = 8,00,000. // **Units let out:** Annual value per unit = Higher of expected rent of 6,00,000 (@ 50,000 p.m.) or actual rent 4,80,000 (@ 40,000 p.m.) = 6,00,000. IHP per unit = 6,00,000 – 1,80,000 standard deduction @ 30% = 4,20,000. IHP for 5 units = 21,00,000. // **Units vacant:** Annual value is Nil u/s 23(5) as units are held as stock-in-trade and not let during any part of PY. Benefit is available for the period up to 2 years from the end of FY 2021-22 in which COC is obtained. // **Total income** = 5,00,000 + 8,00,000 + 21,00,000 = 34,00,000.

**2A:** Though excess of 1,25,000 (SDV of 16,25,000 – Consideration of 15,00,000) is > 50,000, but SDV is not > 110% of consideration. Hence, no income arises u/s 56(2)(x) in the hands of Jayesh.

**3C:** Income does not arise u/s 56(2)(x) on receipt of unit from Rakhi as the unit is not a capital asset in the hands of Suresh. // FVC u/s 43CA on sale of unit to Mahesh is 20,00,000 since SDV is not > 110% of consideration. Business income = 20,00,000 – 14,00,000 = 6,00,000.

**4D:** On sale of Units: No TDS u/s 194-IA as consideration is < 50 lakh in each case. // On rent: No TDS u/s 194-I as tenants do not have income from business/profession; hence, they are not specified individuals covered u/s 194-I. No TDS u/s 194-IB as monthly rent is not > 50,000.

**5A:** Yes, for sale of units as amount is > 10 lakh per transaction.

**CASE 8: Taxability of income from properties:** House in Delhi: Taxable under the head IHP as self occupied property. Flat in Varanasi: Taxable under the head IHP as let out property. Showroom in Delhi: Taxable under the head PGBP as it is occupied by her for her business. Under-construction flat in Mumbai: Taxable under the head IFOS as the property is under construction.

**1A: House in Delhi** = NAV NIL – Interest on loan 30,000 (allowed up to 30,000 for loan is taken for renovation) = Loss of 30,000. // **House in Varanasi:** NAV = GAV 3,12,000 (higher of expected rent of 3,00,000 or actual rent of 3,12,000) – Municipal taxes Nil (as not paid by Vrinda) = 3,12,000. IHP = NAV 3,12,000 – Standard deduction 93,600 (@ 30%) – Interest on loan 50,000 (no limit on deduction as property is let out) = 1.68,400, // Total IHP = 1,68,400 – 30,000 = 1,38,400.

**2D:** PGBP = Business income before showroom expenses 5,00,000 – Municipal taxes u/s 30 of NIL (disallowed u/s 43B as paid after the ROI due date) – Repairs u/s 30 of 15,000 – Insurance u/s 30 of 4,000 – Interest on loan from SBI u/s 36(1)(iii) of 20,000 (not disallowed u/s 43B as paid within time) = 4,61,000.

**3B:** IFOS = Rent of 40,000 – Expenses of 5,000 (not disallowed u/s 58 as it is not > 10,000 in cash) = 35,000.

**4C:** Gross total income = IHP 1,38,400 + PGBP 4,61,000 + IFOS 35,000 = 6,34,400. Total income = GTI 6,34,400 – Deduction u/s 80C for principal repayment NIL (as loan is not taken for purchase or construction) = 6,34,400.

**5D:** Mr. B will deduct TDS on rent paid u/s 194-I @ 10% of 3,12,000 = 31,200. Mr. B is covered u/s 194-I as his business turnover is > 1 crore in the preceding FY and rent during the FY is > 2.4 lakh. No TDS is required in respect of municipal taxes borne by the tenant vide Circular 718/1995. // PQR Pvt. Ltd. will not deduct TDS u/s 194-I as rent during the FY is not > 2.4 lakh.

**CASE 9: 1C and 2A:** House in Patna: NAV = Nil as house is self-occupied. IHP = NAV of Nil – Interest u/s 24(b) allowed up to 2,00,000 = Loss of 2,00,000. // House in Gandhinagar: 3,000 paid as municipal taxes for current year = 1% of municipal value. Hence, municipal value = 3,00,000. GAV = Higher of expected rent of 3,00,000 or actual rent of 4,40,000 (@ 40,000 for 11 months) = 4,40,000. NAV = GAV of 4,40,000 – municipal taxes paid of 10,000 = 4,30,000. IHP = NAV of 4,30,000 – 30% standard deduction of 1,29,000 = 3,01,000. // Income under the head IHP: IHP = 1,01,000 (3,01,000 for Gandhinagar house – 2,00,000 from Patna house) – Brought forward IHP loss to the extent of 1,01,000 set off u/s 71B = NIL. IHP loss can be carried forward even if ROI of AY 2020-21 was not filed in time. Balance loss of 49,000 is carried forward to the next AY u/s 71B.

**3B:** STCG arises on sale of house as it is not held for > 24 months. // FVC u/s 50C = 30 lakh, as SDV is not > 110% of consideration. SDV of date of agreement is taken as part consideration is received by specified mode. // COA = Value taken into account u/s 56(2)(x) = 20 lakh. Section 56(2)(x) was applicable on acquisition of house as excess of 10 lakh (SDV of 20 lakh – Consideration of 10 lakh) was > 50,000 and SDV of 20 lakh was > 110% of 10 lakh. // Exemption u/s 54EC for investment in NHAI bonds is not available as gain is not LTCG. // STCG = 30 lakh FVC – 20 lakh COA = 10 lakh.

**4D:** Gross total income = IHP NIL + STCG 10,00,000 = 10,00,000. Total income = GTI of 10,00,000 – Deduction under Chapter VIA of 2,50,000 = 7,50,000. // Computation of deduction under Chapter VIA: Deduction u/s 80C for repayment of principal of 2 lakh = 1,50,000. Deduction u/s 80EEA (as SDV of house is not > 45 lakh and Jay did not own any residential house property on 1.6.2020) = Interest of 1,00,000 (3 lakh interest – 2 lakh allowed u/s 24(b)). Total deduction = 2,50,000.

**CASE 10: 1B; 2A; 3C; 4A.** Computation of depreciation and WDV as on 31.3.2023, is given below.

Particulars	Building	Furniture	P&M	Intangible
Opening WDV as on 1.4.2022	30,00,000	-	10,00,000	20,00,000
<b>Add:</b> Actual cost of assets acquired during the PY:				
Second hand furniture (put to use for ≥ 180 days)		1,00,000		
Warehouse (put to use for < 180 days)	20,00,000			
Machine (put to use for < 180 days from 15.12.2022). Freight and insurance is not included in actual cost as it is paid in cash for > 10,000.			10,00,000	
Motor car (put to use for < 180 days)			5,00,000	
Generators (put to use for > 180 days). Use includes ready to use.			1,50,000	
Less: Moneys payable for machine sold			(6,00,000)	
	50,00,000	1,00,000	20,50,000	20,00,000
<b>Less: Normal depreciation:</b>				
Building @ 10%: 50% of 10% of 20,00,000 + 10% of 30,00,000	(4,00,000)	-	-	-
Furniture @ 10%	-	(10,000)	-	-
P&M @ 15%: 50% of 15% of 15,00,000 + 15% of balance 5,50,000			(1,95,000)	-
Intangibles @ 25%			-	(5,00,000)
<b>Less: Additional depreciation on new P&amp;M:</b> On machine @ 50% of 20% of 10,00,000 + On generators @ 20% of 1,50,000. Not permitted on motor car.			(1,30,000)	
<b>Closing WDV</b>	<b>46,00,000</b>	<b>90,000</b>	<b>17,25,000</b>	<b>15,00,000</b>

Depreciation is not allowed on land.

**CASE 11: 1A:** Computation of depreciation is given below.

Particulars	Rs.
<b>Normal depreciation:</b>	
Second hand Machine A put to use for < 180 days. Depreciation = 50% of 15% of 5,00,000	37,500
Machine B put to use for ≥ 180 days. Depreciation = 15% of 3,00,000	45,000
Computers put to use for < 180 days. Depreciation = 50% of 40% of 2,00,000	40,000
Furniture put to use for ≥ 180 days. Depreciation = 10% of 4,00,000	40,000
<b>Additional depreciation:</b>	
Printing amounts to manufacture/production and is eligible for additional depreciation as per Circular 15/2016. It is not allowed	



on second hand machine, computers installed in office and furniture	
Machine B = 20% of 3,00,000	60,000
Computer installed in factory = 50% of 20% of 50,000	5,000
	2,27,500

**2A:** Section 44AD is not applicable as turnover exceeds 2 crore. As total receipts in cash is not > 5% of total receipts and total payments in cash is not > 5% of total payments, tax audit limit is 10 crore. As turnover is 2.5 crore, tax audit is not required. Hence, due date to furnish ROI is 31 July.

**3C:** Interest on bank loan = 75,000 (for 9 months @ 10% p.a. on 10 lakh) – 18,750 (1/4<sup>th</sup> disallowed u/s 43B as it is paid after the ROI due date) = 56,250. // Payment to Jagat Transport = 1,12,000. No disallowance is attracted u/s 40(a)(ia) as TDS is not deductible. TDS is not deductible u/s 194C as total sales, gross receipts or turnover in business is not > 1 crore in preceding FY since the business is started in current FY. TDS is not deductible u/s 194M as sum is not > 50 lakh. // Total deduction = 1,68,250

**4D:** TDS is not deductible u/s 194A on interest as payment is made to a bank. TDS is not deductible u/s 194C or 194M, as explained above. TDS is not deductible u/s 194Q as total sales, gross receipts or turnover in business is not > 10 crore in preceding FY and the sum for purchase from Q Ltd. is not > 50 lakh.

**5B:** Income in case of buy back of shares by a domestic company is exempt u/s 10(34A) in the hands of shareholder.

**CASE 12: 1C:** Computation of income under the head PGBP is given below:

Particulars	Rs.
Turnover	5,00,00,000
Less: Expenditure (other than remuneration and interest to partners)	(4,50,00,000)
Less: Interest allowable up to 12% = 5,00,000 × (12/15)	(4,00,000)
Less: Remuneration allowable (see below)	(28,50,000)
	17,50,000
Less: Business loss of AY 2020-21. Can't be brought forward u/s 72 as ROI was not filed by the due date.	-
	17,50,000

Book Profit = PGBP before deducting remuneration = 46,00,000. Remuneration of 36 lakh deductible u/s 40(b) = 90% of first 3 lakh of book profit (2,70,000) + 60% of balance book profit (25,80,000) = 28,50,000.

**2A:** Gross total income = PGBP 17,50,000 + IFOS 3,00,000 + STCG 6,00,000 (Brought forward LTCG cannot be set off against STCG) = 26,50,000. // Deduction u/s 80G = 50,000 for donation to NDF @ 100%. Deduction is not allowable for donation in kind and donation in cash exceeding Rs. 2,000. // Total income = 26,50,000 GTI – 50,000 deduction u/s 80G = 26,00,000.

**3B:** TDS is not deductible u/s 194A for interest paid by firm to its partner. TDS on commission u/s 194H = 20% of 10 lakh = 2 lakh. Rate of TDS is 20% by virtue of section 206AA since PAN is not furnished by Mr. X.

**4B:** LTCG loss of AY 2015-16 cannot be carried forward to AY 2024-25 as 8-year period expires with AY 2023-24.

**5D:** Since total payments in cash exceed 5% of total payments during the PY, tax audit limit is Rs. 1 crore. As turnover exceeds Rs. 1 crore, firm is liable for tax audit. Thus, due date of ROI for the firm as well as its partners is 31 October.

**CASE 13: 1B** (10 lakh under the head IFOS); **2D** (35 lakh on sale of commercial building); **3C** (u/s 194-IA on purchase of residential flat); **4A;** **5B** (No TDS u/s 194-IA on sale of building and land). Working is given below:

**Purchase of residential flat:** Income is taxable u/s 56(2)(x) as excess (SDV 70 lakh – Consideration 60 lakh) of 10 lakh is > 50,000 and SDV is > 110% of consideration. Excess of 10 lakh is taxable u/s 56(2)(x) under the head IFOS. SDV on date of agreement is not taken since part consideration is received by bearer cheque. // TDS deductible u/s 194-IA = 1% of 60 lakh = 60,000.

**Sale of commercial building:** FVC u/s 50C = 55 lakh as SDV is > 110% of consideration. COA = 20 lakh. STCG (as building is held for not more than 24 months) = 55 lakh – 20 lakh = 35 lakh. // TDS is not deductible u/s 194-IA as consideration is < 50 lakh.

**Sale of agricultural land:** It is not a capital asset as it is located in rural area being beyond 8 kms from the local jurisdiction limit. Capital gain does not arise. // TDS is not deductible u/s 194-IA on rural agricultural land in India.

**Income under head 'Salaries':** Taxable income = Gross salary 30,00,000 – Standard deduction 50,000 = 29,50,000.

**Deduction u/s 80D:** Preventive health check up = Allowed up to 5,000. Health insurance premium = Not allowed as paid in cash.

**Total income:** Gross total income = Salary 29,50,000 + Capital gain 35,00,000 + IFOS 10,00,000 = 74,50,000. Total income = GTI – 5,000 u/s 80D = 74,45,000.

**CASE 14: 1C; 2A; 3D; 4B; 5B.** Working is given below.

**Residential status:** Stay during PY 2022-23 = 107 days. Stay during preceding 4 PYs (2018-19 to 2021-22) = 40 days. She is not a resident under any special or general rule. But she is a citizen of India, total income (other than income from foreign sources) is > 15 lakh in the PY (refer below) and she is not liable to tax in any other country/territory. Hence, she is deemed resident (RNOR) under the Stateless Rule.

**Business income** - Income accrues/arises outside India and is derived from a business not controlled in India. Thus, it is not taxable in India for a RNOR.

**Salaries:** Basic salary = 6,00,000. // HRA = 1,50,000 HRA received – 1,20,000 Exempt (i.e., Lower of (a) 1,50,000 HRA received, (b) 1,20,000 (1,80,000 rent paid – 60,000 being 10% of salary), (c) 2,40,000 being 40% of salary) = 30,000. // Car (owned by and R&M expenses met by employer) = 1,800 p.m. for 3 months = 5,400. // Taxable salary = 6,35,400 – 50,000 standard deduction = 5,85,400.

**Capital gain:** LTCG on sale of house = 15,00,000. // STCG on sale of shares = Net consideration 6,64,875 (6,75,000 consideration – 10,125 brokerage being expenditure on transfer) – COA 5,05,000 (5,00,000 cost + 5,000 brokerage) = 1,59,875. COA of bonus shares is Nil. // Total capital gain = 16,59,875.

**IFOS:** Interest on bonds of Bahrain Government: Not taxable as accrued and received outside India. Subsequent remittance to India is not relevant. // Dividend from foreign companies = 90,000 taxable, as received in India. // Dividend from Blue Ltd. @ 50 per share for 1,000 shares held on record date = 50,000. Blue Ltd. will deduct TDS u/s 194 @ 10% of 50,000 = 5,000. // IFOS = 1,40,000.

**Total income** = 5,85,400 Salaries + 16,59,875 Capital gains + 1,40,000 IFOS = 23,85,275. Deduction u/s 80C is not available for PPF deposit in the account of younger brother.

**TDS deductible by Devika:** TDS is deductible u/s 194-IB as Devika is not referred u/s 194-I and rent is paid to a resident exceeding 50,000 p.m. TDS is deductible @ 20% (by virtue of section 206AA) as PAN is not furnished. TDS to be deducted from the rent of March = 20% of 1,80,000 = 36,000.

**CASE 15: 1B:** Computation of income under the head IFOS:

Particulars	Rs.	Rs.
Money received without consideration		
From friend	40,000	
From spouse (3 lakh + 2 lakh): Not taxable as spouse is relative.	-	
Income not taxable u/s 56(2)(x) as aggregate is not > 50,000		-
Movable property received without consideration		
Wrist watch: Not taxable as it is not a specified movable property	-	
Painting from younger sister: Not taxable as she is a relative	-	
Car from father: Not taxable as he is a relative and car is not a specified movable property	-	
Shares from colleague	1,00,000	
Mobile phone: Not taxable as it is not a specified movable property	-	
Aggregate FMV is taxable as it is > 50,000		1,00,000
Income taxable u/s 56(2)(x)		1,00,000

**2D:** Computation of capital gain:

Particulars	Rs.
Shares of PQR Pvt. Ltd.:	
Full value of consideration u/s 50CA = FMV, since consideration is < FMV	1,50,000
Less: COA = Value taken into account u/s 56(2)(x)	(1,00,000)
STCG (as shares are not held for > 24 months). POH of Jasmit is considered.	50,000
Mobile phone: Not a capital asset as it is a personal effect.	-
Capital gain	50,000

**3C:** Computation of business income:

Particulars	Rs.	Rs.
Profits of business		2,00,000
Less: Income clubbed with the income of spouse u/s 64(1)(iv):		
• Income from business	2,00,000	
• First day of PY (date of set up of business)	1.1.2023	
• Total investment in business by Jasmit on 1.1.2023 = 1,60,000 from sale of assets + 3,40,000 money gifted by friend and spouse + 5,00,000 own savings	10,00,000	
• Value of assets gifted by spouse invested by Jasmit in business on 1.1.2023	3,00,000	
• Business income clubbed = 2,00,000 × (3,00,000 / 10,00,000)		(60,000)
Business income taxable in the hands of Jasmit		1,40,000

**4B:** Income clubbed u/s 64(1)(iv) of 60,000.

**CASE 16: 1B; 2C; 3A; 4D.** Working is given below.

Particulars	Madan	Mohini	Suyash
Salary (standard deduction is blocked u/s 115BAC)	-	6,00,000	
Current year business income	6,00,000		
Loss from business clubbed u/s 64(1)(iv) as entire investment in business is from gift from Madan	(50,000)		
Unabsorbed business loss: Cannot be carried forward from AY 2020-21 as ROI was not filed in time	-		
Interest from loan to neighbor clubbed u/s 64(1)(iv)	30,000		
Prize not clubbed u/s 64(1A) as it arises on account of skill and talent			50,000
Dividend on shares: Not clubbed as it is second generation income		5,000	

Loss from gambling cannot be set off or carried forward	-		
	5,80,000	6,05,000	50,000
Less: Deduction u/s 80C for PPF blocked u/s 115BAC	-	-	-
Total income before clubbing u/s 64(1A) (to be clubbed in the hands of Mohini as such total income is greater than Madan)	5,80,000	6,05,000	50,000
Interest on fixed deposit @ 10% on 1 lakh for 6 months		5,000	
STCG from sale of shares = 75,000 (1.5 times purchase price) – 50,000 cost		25,000	
Less: Exemption u/s 10(32) blocked u/s 115BAC		-	
Total income	5,80,000	6,35,000	50,000

**CASE 17: 1A; 2C; 3D; 4B; 5A.** Working is given below.

**Taxable income of Jagriti: IHP for house in Kolkata:** Jagriti is deemed owner u/s 27 as she gifted the house to her spouse. Expected rent = Higher of fair rent or municipal valuation = 4,80,000. Actual rent for 9 months = 4,59,000. Actual rent is < expected rent owing to vacancy (otherwise actual rent of 6,12,000 is not < expected rent). Hence, GAV = Actual rent. NAV = GAV 4,59,000 – Municipal taxes NIL as not paid during the PY = 4,59,000. IHP = 4,59,000 – 30% standard deduction = 3,21,300.

**Capital gain for house in Shillong:** STCG (as house is not held for > 24 months) = 45 lakh – 20 lakh = 25 lakh. Exemption u/s 54 is not available for STCG.

**IFOS = Interest on bonds clubbed u/s 64(2) (as investment is made by HUF out of money gifted by Jagriti) 1,00,000 + Deemed dividend u/s 2(22)(e) for loan (as Jagriti holds ≥ equity shares) 1,00,000 + Regular dividend 50,000 (1,50,000 – 1,00,000 set off against previous payment treated as dividend u/s 2(22)(e)) = 2.50,000.**

**Salary:** Salary is clubbed u/s 64(1)(ii) as Chaman is not qualified for the job and Jagriti (along with relative) owns ≥ 20% equity shares. Salary = 4,80,000 – Standard Deduction NIL as it is blocked u/s 115BAC = 4,80,000.

**Total income = IHP 3,21,300 + Capital gains 25,00,000 + IFOS 2,50,000 + Salary 4,80,000 – Deduction u/s 80D NIL as it is blocked u/s 115BAC = 35,51,300.**

**Taxable income of Chaman:** Nil as all incomes are clubbed with the income of Jagriti.

**TDS:** TDS u/s 194-IB on rent (as rent is > 50,000 p.m.) = 5% of 4,59,000 = 22,950. TDS is not deductible u/s 194-I as the tenant is not a specified individual since not engaged in any business or profession. // TDS u/s 194-IA on sale of Shillong house = NIL as consideration is < 50 lakh. // TDS u/s 193 on bonds = NIL as TDS is not deductible on security of the Government. // TDS u/s 194 on dividend = 10% of 1,50,000 = 15,000. // Total TDS = 37,950.

**ROI:** Due date for Jagriti and Chaman is 31 July. Though total income of Chaman is Nil, he is required to furnish ROI, as he has incurred expenditure on foreign travel of > 2 lakh.

**CASE 18: 1C:** Since most of the receipts and payments are by cash or bearer cheque, tax audit limit is 1 crore for business. Tax audit is not required as gross receipts from business do not exceed 1 crore and gross receipts from profession do not exceed 50 lakh in the current FY. Tax audit is not required even in terms of presumptive income sections u/s 44AD/44ADA (due to having a lower income than that prescribed under those sections, i.e., @ 8% u/s 44AD and @ 50% u/s 44ADA) as Sakshi is out of purview of those sections since she is carrying on agency business (not eligible u/s 44AD) and a non-specified profession (not eligible u/s 44ADA). // Section 44AA applies where income from business or non-specified profession is > 2.5 lakh or gross receipts are > 25 lakh in any one of 3 preceding PYs. Hence, Sakshi needs to maintain such books and documents u/s 44AA as may enable the AO to compute her total income.

**2A:** Loss of 5 lakh from trading in derivatives in securities on a RSE is not speculative business loss. Hence, it can be set off against current year's business income. Loss of 1 lakh from card games cannot be set off or carried forward. Loss of 8 lakh on sale of shares in PY 2021-22 is long term capital loss as listed shares were held for > 12 months. Such brought forward loss can be set off only against LTCG u/s 74. Hence, loss is carried forward to AY 2024-25.

**3B:** Computation of total income:

Particulars	Rs.	Rs.
<b>PGBP</b>		
Income from business and profession (5 lakh + 18 lakh)	23,00,000	
Less: Derivates loss set off u/s 70	(5,00,000)	
		18,00,000
<b>Capital gains</b>		
Full value of consideration u/s 50C = 16 lakh, as SDV of 17 lakh (on the date of agreement; since part consideration is received by a specified mode) is not > 110% of 16 lakh (actual consideration)	16,00,000	
Less: COA	(10,00,000)	
STCG (as plot is held for not more than 24 months)		6,00,000
<b>IFOS</b>		
Loss from card games – Cannot be set off or carried forward		-
<b>Gross total income</b>		24,00,000

Deduction u/s 80E = Interest paid during the year as PY 2022-23 is within the 8-year period starting from 2016-17.	(1,25,000)
<b>Total income</b>	<b>22,75,000</b>

**4D:** Gross receipts in business is > 1 crore in preceding year. Gross receipts in profession is > 50 lakh in preceding year. Hence, Sakshi is a specified individual for deducting TDS u/s 194C. But TDS is not deductible u/s 194C as payment is made for personal purpose. TDS is deductible u/s 194M as sum is > 50 lakh. TDS = 5% of 60 lakh = 3 lakh. // No TDS is deductible u/s 194A for interest as it is paid to a bank.

**5A:** Tax audit is not required. Hence, due date is 31 July.

**6C:** Return is filed beyond the due date of 31 July and total income is > 5 lakh. Fees u/s 234F = 5,000.

**CASE 19: 1C; 2A; 3C; 4D; 5B.** Working is given below.

*Computation of total income*

Particulars	Rs.	Rs.	Rs.
<b>Salaries</b>			
Salary and allowances		24,00,000	
Less: Standard deduction		(50,000)	
			23,50,000
<b>Income from house property</b>			
Arrears of rent: Not taxed again as considered in the year it became due		-	-
<b>Capital gains</b>			
LTCG on sale of house	5,00,000		
Less: Exemption u/s 54EC for investment in NHA1 bonds within 6 months after 15.4.2022	(3,00,000)		
		2,00,000	
LTCG on sale of listed equity shares u/s 112A on which STT paid on sale (condition of STT paid on acquisition is not applicable as shares are purchased before 1.10.2004):			
• FVC	5,00,000		
• Less: COA of shares acquired before 1.2.2018 = Higher of (a) COA 55 (higher of COA or FMV on 1.4.2001) and (b) lower of FMV on 31.1.2018 (310) or FVC (500), i.e., 310 = 310 per share	(3,10,000)		
		1,90,000	3,90,000
<b>IFOS</b>			
Advance forfeited in respect of sale of house: Taxable u/s 56(2)(ix)		1,00,000	
Dividend: Gross of TDS u/s 194 @ 10%		70,000	
Lottery prize: Gross of TDS u/s 194B @ 30%		50,000	
Prize won by Roshni: Not clubbed u/s 64(1A) as arising out of talent		-	
Loss in gambling of preceding PY: Cannot be brought forward for set off		-	
Interest on saving bank a/c: Not grossed up for TDS as TDS is not deductible u/s 194A since interest is not > 40,000		40,000	
Interest on fixed deposits: Not grossed up for TDS as TDS is not deductible u/s 194A since interest is not > 40,000 from each bank		1,40,000	
			4,00,000
<b>Gross total income</b>			<b>31,40,000</b>
Less: Deductions under Chapter VIA:			
Deduction u/s 80C (allowed up to 1,50,000):			
• Tuition fees (development fee is not eligible)	60,000		
• Deposit in Sukanya Samriddhi a/c	1,00,000		
• 3Y term deposit – Not eligible	-		
		1,50,000	
Deduction u/s 80GGC: Not eligible as donation is in cash		-	
Deduction u/s 80TTA: On Saving Bank A/c interest allowed up to 10,000. Not allowed on fixed deposit interest.		10,000	
(allowed on income other than LTCG and winnings)			(1,60,000)
<b>Total income</b>			<b>29,80,000</b>

Income comprises LTCG u/s 112A of 1,90,000, LTCG u/s 112 of 2,00,000; Winning from lottery of 50,000; other income of 25,40,000.

## Computation of tax payable

Particulars	Rs.
On LTCG u/s 112A (exceeding 1 lakh) @ 10% of 90,000	9,000
On LTCG u/s 112 @ 20% of 2,00,000	40,000
On lottery @ 30% of 50,000	15,000
On other income of 25,40,000 at regular rates	5,74,500
	6,38,500
HEC @ 4%	25,540
Tax on total income	6,64,040
Less: TDS on lottery	(15,000)
Less: TDS on dividend	(7,000)
Tax payable	6,42,040

## CASE 20: 1C; 2A; 3D; 4A; 5C; 6C. Computation of total income:

Particulars	Rs.	Rs.
Income from house property: Taxable for a ROR on global basis		1,00,000
Profits and gains of business or profession		75,00,000
Capital gains: Long term capital loss on sale of shares cannot be set off against income under any other head. Carried forward to AY 2024-25.		-
Income from other sources:		
Interest on POSA = 13,500 – Exempt 3,500	10,000	
Interest on FD = Gross of TDS @ 10% u/s 194A. TDS is applicable as interest is > 40,000 for the payer bank. Interest per branch is not considered as bank has adopted CBS.	65,000	
Award (not exempt u/s 10(17A) as it is not instituted or approved by Government)	5,00,000	
		5,75,000
Gross total income		81,75,000
Less: Deduction u/c VIA:		
• U/s 80G for donation to PMNRF @ 100%	60,000	
• U/s 80JJAA (see Note)	4,50,000	
• U/s 80TTAA on POSA interest up to the limit of 10,000	10,000	
		(5,20,000)
Total income		76,55,000
Tax on total income (after adding SC @ 10% on tax and HEC @ 4% on tax + SC)		24,12,696
Tax on total income (rounded off)		24,12,700

*Note:* As payments by cash and bearer cheque are > 5% of total payments, tax audit limit is 1 crore. Jasmeet is liable to tax audit as turnover is > 1 crore. Thus, he is eligible for deduction u/s 80JJAA. Workmen employed on 1.4.2022 are not eligible as they do not participate in RPF. Workmen employed on 1.6.2022 are not eligible as emoluments are paid in cash. Workmen employed on 1.12.2022 are not eligible as they are employed for < 150 days during the PY (threshold for footwear manufacturing business). Workmen employed on 1.10.2022 are eligible. Deduction u/s 80JJAA = 30% of 25,000 p.m. for 10 workmen for 6 months = 4,50,000.

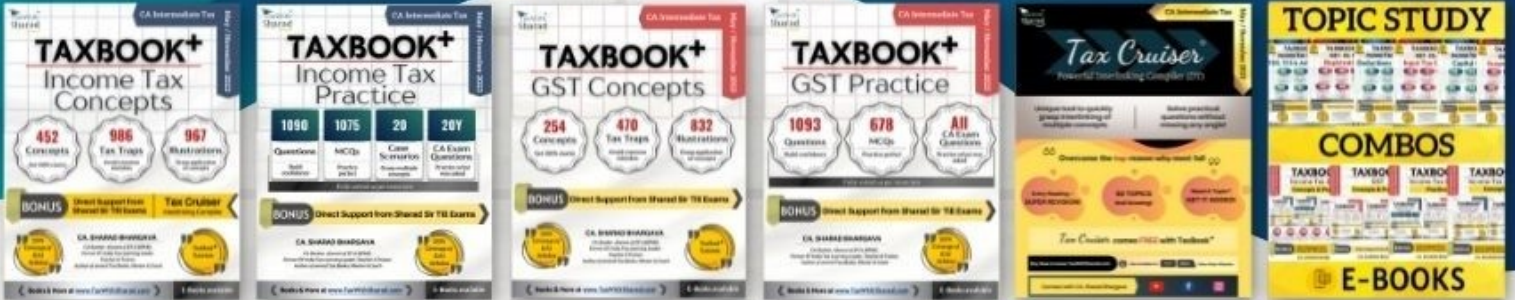
**Tax on total income:** Jasmeet has claimed deduction u/s 35AD and 80JJAA, adjusted total income is > 20 lakh and he has not opted for section 115BAC. Adjusted total income for AMT = 76,55,000 + 4,50,000 Deduction u/s 80JJAA + 70,00,000 Deduction u/s 35AD – 7,00,000 Depreciation allowable @ 10% as if no deduction u/s 35AD was allowed on building = 1,44,05,000. AMT @ 18.5% = 26,64,925 (rounded off to 26,64,930). AMT is payable as regular tax is < AMT. AMT credit available = 26,64,930 – 24,12,700 = 2,52,230.

**ROI:** Due date to furnish ROI is 31 October since tax audit is required.



# Crack-the-Tax with Sharad Sir

Best Ever Study Material with Super Rich Content  
& Direct Support From the Tax Learning Expert



100% Coverage of Syllabus	To the point & sharply exam oriented	Tax Traps to avoid common mistakes	Tax Cruiser - The Interlinking Compiler (DT)
TaxBook+ Tutorials on YouTube	Numerous illustrations to grasp concepts	Huge Question Bank for unlimited practice	Master Question to practice chapter at once
ICAI-style situation based MCQs	Case Scenario MCQs to master multiple concepts	Full working steps for Questions & MCQs	All questions as per exam difficulty level
Past 20 ICAI exam questions (solved)	Questions from New & Old Schemes covered	All angles of RTP & MTP integrated in questions	Examiner Comments to avoid past mistakes
Topic-wise questions & MCQs for smooth study	Logic & Reasoning to understand better	Student Notes to explain non-tax side	Fully aligned to ICAI views
Numerous Charts & Tables	Intelligent highlighting of key words & figures	Earmarking of topics asked in exams	Content arranged based on themes

Tax Max with Sharad Sir      Books & More at [www.TaxWithSharad.com](http://www.TaxWithSharad.com)  
 High quality tax videos & tutorials on YouTube      E-Books available  
 Subscribe Now @taxwithsharad

Also Available On Other Major Websites

Connect with  
**CA. SHARAD BHARGAVA**



taxwithsharad

